APRIL 19, 2010 | BUSINESSWEEK.COM

MARLBORO VS. THE BLACK MARKET

CONAN IN EXILE

Bloomberg BusinessWeek



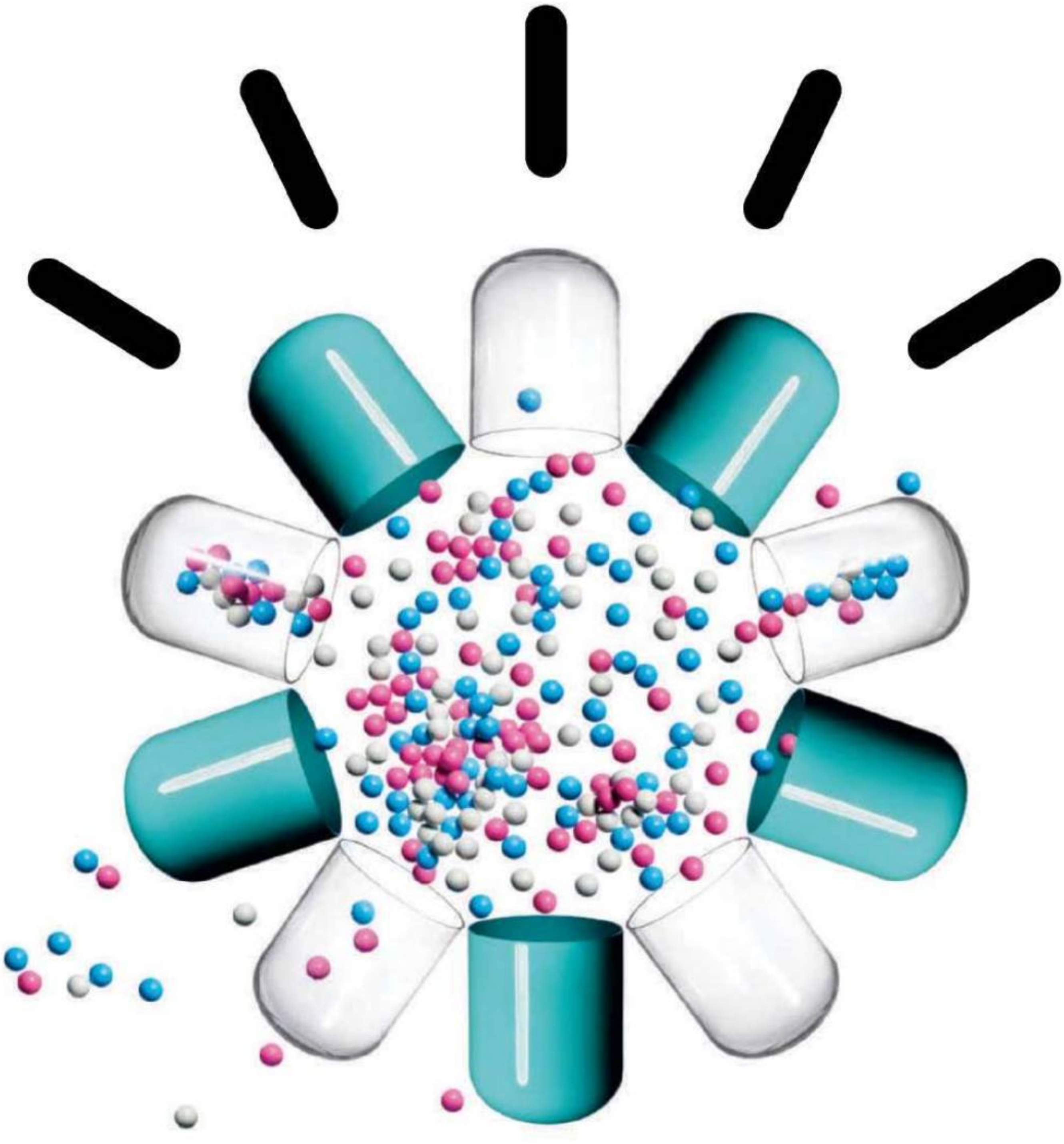
THE HOT HAND

OBAMANOMICS IS WORKING BETTER THAN YOU THINK. WHO SAYS? WALL STREET

P. 28

THERE'S STILL A CASE FOR MORE STIMULUS

P. 32



www.journal-plaza.net & www.freedowns.net

Could a smarter prescription bottle cure the drug industry?

Counterfeit drugs can account for up to 30% of the medicine market in some developing countries, with global sales of these drugs reaching an estimated $75 billion by 2010. This is a big problem for drug companies—and an even bigger problem for patients, whose lives may depend on these medications. On a smarter planet, we can track pharmaceuticals more efficiently to help reduce the risk of counterfeiting, fraud and error.

GSMS, Inc., a midsize pharmaceutical manufacturer and specialty packaging company, saw an opportunity to make drugs safer, sooner. Recent legislation in California will require all drugs to be serialized and traced through the supply chain by 2015. Rather than wait for the deadline, GSMS decided to get a jump on the competition. Working with IBM and DSS, an IBM Business Partner, GSMS designed a sophisticated track-and-trace system using 2-D bar codes and RFID tags. Having a unique serial number on every package of medicine helps GSMS prevent counterfeit products from ever entering the supply chain. Now patients can have confidence in the medications they're taking. To see more evidence of smarter midsize businesses, go to ibm.com/engines/medicine2. Let's build a smarter planet.

Midsize businesses are the engines of a Smarter Planet.

IBM, the IBM logo, ibm.com, Smarter Planet and the planet icon are trademarks of International Business Machines Corp., registered in many jurisdictions worldwide. Other product and service names might be trademarks of IBM or other companies. A current list of IBM trademarks is available on the Web at www.ibm.com/legal/copytrade.shtml. © International Business Machines Corporation 2009. All rights reserved.

www.journal-plaza.net & www.freedowns.net

WELLS FARGO ADVISORS



With you when *you want a plan crafted just for you*

Introducing Wells Fargo Advisors We all envision how we'll spend our tomorrow, and that's why we need our own unique path to get there. Our Financial Advisors offer more than just knowledge and insight. They sit down with you, getting to know you and your specific needs before helping you create a plan that addresses your goals. With over 150 years of experience and offices nearby and nationwide, we're with you when you need the help of someone you can trust. Wachovia Securities is now Wells Fargo Advisors.

To learn more, visit wellsfargoadvisors.com

Together we'll go far



Investment and Insurance Products: NOT FDIC-Insured | NO Bank Guarantee | MAY Lose Value

Wells Fargo Advisors is the trade name used by two separate registered broker-dealers: Wells Fargo Advisors, LLC, and Wells Fargo Advisors Financial Network, LLC, Members SIPC, non-bank affiliates of Wells Fargo & Company.

© 2010 Wells Fargo Advisors, LLC. All rights reserved. 0210-0726 (2/10)

www.journal-plaza.net & www.freedowns.net

Bloomberg BusinessWeek In Depth

OBAMANOMICS

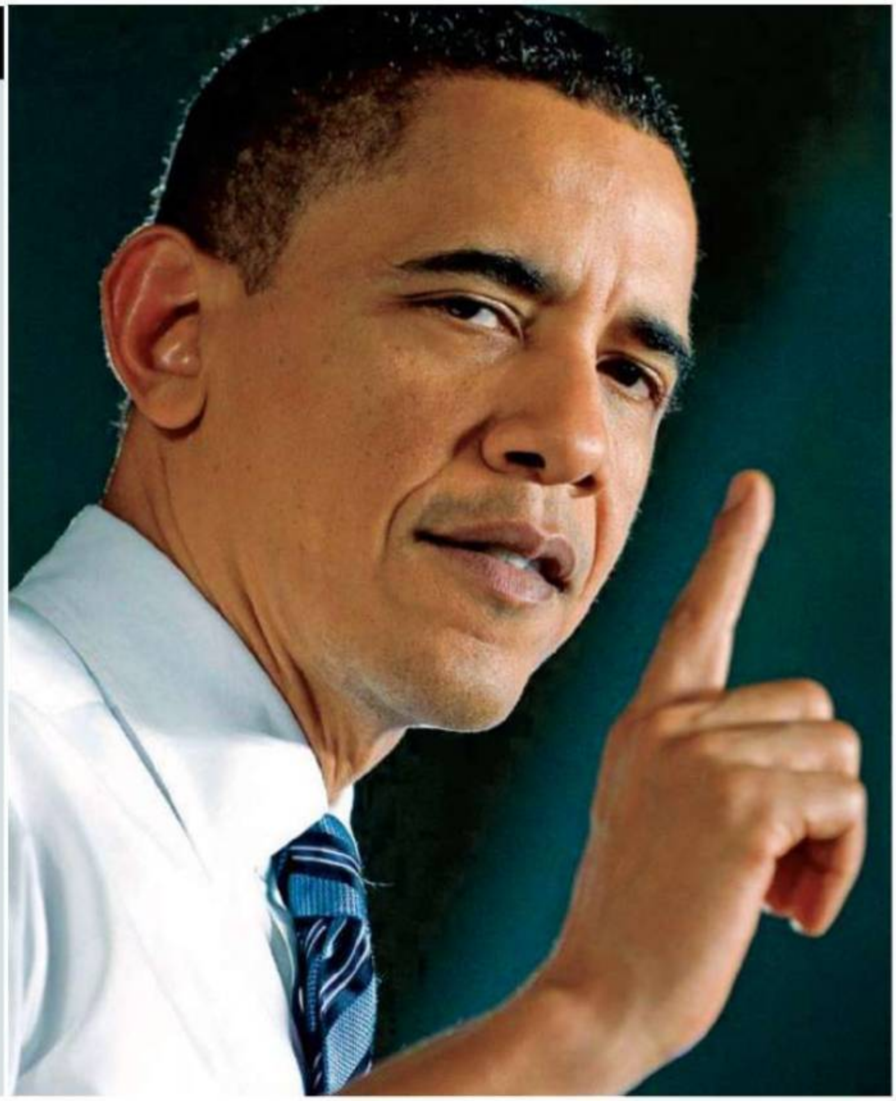
28 | Why the Obama Plan Is Working

Most Americans believe the economy is still on the decline. Yet the markets are delivering a vote of confidence. Obamanomics, which borrows heavily from Clinton-era policy, looks likely to keep the growth going.

32 | The Case for More Stimulus

The March uptick in hiring is great news, so why is the White House soft-pedaling it? Too much confidence could slam the door on a second wave of federal spending, which may be needed to stave off the sort of torpor that has plagued Japan since the '90s.

» The economy is robust.. Homes are selling. Factories are expanding. What's the problem?



38 | *The End of Wall Street*

In his new book, Roger Lowenstein shows how Washington and Wall Street inflated the bubble—and how, when it burst, a certain idea of laissez-faire finance went with it. A fresh look at a misunderstood chapter in economic history.

46 | Peter Gabriel Knows What You Want

The 60-year-old rocker is also a tech entrepreneur and front man for The Filter, a so-called recommendation engine that refers users to online music and movies. How good is it? Good enough to be licensed by NBC, Comcast, and Sony Music.

50 | The Sheriffs of Marlboro Country

Contraband cigarettes, sent from low-tax to high-tax states, are damaging revenues at Altria. So are cheap smokes from sovereign Native American lands. Now the tobacco giant is fighting back with private eyes on the prowl for untaxed and fake Marlboros.

COVER: PHOTO-ILLUSTRATION BY ARTHUR HOCHSTEIN, PHOTOGRAPHS BY PETE SOUZA/WHITE HOUSE/CORBIS (OBAMA), GETTY IMAGES (COIN); (THIS PAGE) SAUL LOEB/GETTY IMAGES

www.journal-plaza.net & www.freedowns.net

Bloomberg BusinessWeek The Global Report

The Week In Business

06 | Executive Summary The FCC and Comcast; iPad madness; Geithner's trip to Asia; mine accidents in China and West Virginia; a Renault-Daimler pact

11 | At the Table Is China a bubble? Charlie Rose talks with short-seller Jim Chanos, who says yes

14 | Business Outlook Low, steady inflation isn't an unmixed blessing: It risks becoming Japanese-style deflation

17 | Numbers What (hic) recession hangover? The alcohol business is partying, especially cheap brands



New Business

18 | Commentary: Dodd Bill Deficit Requiring banks to carry higher liquidity and capital levels is the reform the Street really needs

22 | The Conan Conundrum Why aren't networks lining up? Finding the right time slot for him is dicey

24 | Honda Slips into Reverse The carmaker should be eating Toyota's lunch, but its U.S. market share is sliding

26 | A Saudi Credit Squeeze Banks are toughening their lending standards, a blow to small businesses

« Why O'Brien still hasn't landed a deal

What's Next

56 | Korea: Coping with Success How years of fretting about competition from China and Japan have empowered the *chaebol*

58 | Belarus, Outsourcing Frontier Foreign investment is surging in the former Soviet republic, and U.S. companies may go there next

60 | Medical ID Theft Epidemic More crooks are pilfering medical data to charge health procedures, from cosmetic surgery to ER visits

62 | Diabetes, the Video Game A Bayer-Nintendo partnership aims to make afflicted kids more health-conscious by putting a fun spin on glucose testing

64 | What Sold China on Amway The marketer's corporate culture is a surprisingly snug fit—helping make the mainland its top market

66 | No Relief for Small Business New laws that relieve consumers of fees and rate hikes don't apply to small business credit cards

Personal Business

69 | Money Report Stocks in small developing markets; the Elliott Wave in Japan; JPMorgan Chase's bullish call on Amazon

70 | The REIT Rebound A year and a half ago, the trusts looked obsolete. Now they're red-hot. How to make the most of them



Eva Cheng runs Amway in China



iPadding along with Rich Jaroslovsky

Business Views

72 | Tech & You Me and my iPad: Rich Jaroslovsky's first weekend

74 | Books Vicky Ward: *The Devil's Casino: Friendship, Betrayal and the High Stakes Games Played Inside Lehman Brothers*

76 | Outside Shot Harvard's Richard Tedlow: Avoid Toyota-style denial

75 | Index of Companies and People

(TOP) ILLUSTRATION BY JIM COOKE; (MIDDLE) PHOTOGRAPH BY PAUL HU/ASSIGNMENT ASIA

www.journal-plaza.net & www.freedowns.net



EXPERIENCE WHAT WE KNOW.

BUSINESS IS DONE BETTER FACE-TO-FACE.









Last year we took over 600 professionals to London and beyond — for free — so they could conduct business face-to-face. Deals were signed. Connections were made. Now it's your turn. Go to **ba.com/facetoface** to connect with other businesses, to hear our success stories and to start creating your own.





BRITISH AIRWAYS

©2010 British Airways Plc.

www.journal-plaza.net & www.freedowns.net

THE WEEK IN BUSINESS

Edited by
Cristina Lindblad



A Comcast technician checking signal strength in Hopkins, Minn.

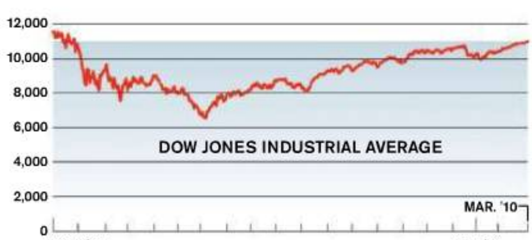
GLEN STUBBE/STAR TRIBUNE/ZUMA PRESS

TECHNOLOGY

'NET NEUTRALITY' SETBACK

In a legal victory for broadband service providers, a federal appeals court ruled on Apr. 6 that federal regulators didn't have the authority to intervene in the Internet management practices of **Comcast**, the nation's largest cable company. The **Federal Communications Commission** censured Comcast in 2008 for blocking subscribers from using peer-to-peer software to view videos. The appeals court's unanimous decision represents a setback for companies such as **Google**, **Amazon,** and **Skype Technologies** that have advocated for so-called Net neutrality rules to prevent Internet service providers such as Comcast, **Verizon Communications,** and **AT&T** from blocking or slowing services offered by rivals. In a statement, the FCC said the court decision does not "close the door to other methods" of "preserving a free and open Internet."

FLIRTING WITH 11,000



Data: Bloomberg

iPAD FRENZY

Sales of Apple's highly anticipated tablet computer topped 300,000 on Apr. 3, the day of its introduction—about 30,000 more than the iPhone sold on its debut weekend in 2007. Eager owners quickly set about downloading more than 1 million applications and a quarter million books. Among the best-selling paid apps were Apple's own Pages, a word processor; Numbers, a spreadsheet; and a $20 task manager called Things. The device is already making waves in the publishing industry. **Amazon** and **Barnes & Noble** on Apr. 2 raised prices on e-book versions of many best sellers in a bid to curry favor with publishers, several of whom have inked deals to sell their titles on Apple's iBooks store.

ECONOMICS & POLICY

DOLLAR DIPLOMACY

Treasury Secretary Timothy Geithner was in India on Apr. 6 and 7 to kick off the first round of the U.S.-India Economic & Financial Partnership. The visit yielded plenty of photo ops and goodwill but no banner trade and investment initiatives. An unscheduled stop in Beijing, where Geithner was scheduled to meet with **Vice-Premier Wang Qishan** on Apr. 8, may prove more fruitful if it helps set the stage for an appreciation of the Chinese currency—something for which the U.S. Congress has been clamoring. Recently there has been speculation that Beijing is considering widening the yuan's daily trading band to allow it to strengthen against the dollar.

www.journal-plaza.net & www.freedowns.net

Count on us.

For the last year, the nation's attention has been fixed on reforming our healthcare system. On behalf of our nearly 100 million members, Blue Cross and Blue Shield companies are committed to working with the Administration and all other parties to implement this new law.

As we have done throughout our 80-year history, we will continue to help people navigate the healthcare system, especially at this time when many people are confused and unsure of what reform means to them. Being a part of the Blue Cross and Blue Shield family is about so much more than a simple membership card. It is a commitment to service excellence, regardless of where you live or what kind of health plan you have. It is financial security in times of healthcare necessity. It is investments in the communities where you live, work and play.

While our nation may have new healthcare laws, much work remains. We need to build a better healthcare system where people live healthier lives. We must make fundamental changes to how care is delivered so that people don't just have access to care, but that everyone receives the highest quality care. And we must address the rising cost of healthcare and bring spending in line with costs in other areas of our economy.

With the help of the nearly 15,000 doctors and nurses that serve integral roles within our health plans, Blue Cross and Blue Shield companies will continue to take a leading role in defining the future of healthcare in America.

At this moment of change, our members can rest assured that we will remain true to the heritage that always has differentiated Blue Cross and Blue Shield companies. In that spirit, we are committed to moving forward and helping make the legislation work for all Americans.

Count on us.

BlueCross
BlueShield
Association

An Association of Independent
Blue Cross and Blue Shield Plans

www.bcbs.com

www.journal-plaza.net & www.freedowns.net

EXECUTIVE SUMMARY

The issue will no doubt be on the agenda when **President Barack Obama** and Chinese President Hu Jintao hold a tête-a-tête in Washington this month.

COAL: DEATH AND SCRUTINY

An Apr. 5 explosion inside a West Virginia coal mine owned by **Massey Energy** killed at least 25 people, the highest death toll for a mining accident in decades. The industry is likely to face increased scrutiny from safety authorities. Massey's Upper Big Branch mine has racked up more than $900,000 in fines over the past year. On the same day, in China, which leads the world in mining fatalities, rescuers pulled 115 men from a coal mine. They had been trapped for more than a week.



Waiting for word of trapped miners at March Fox Worship Center in Eunice, W. Va.

JEFF GENTNER/AP PHOTO

SPORTS BUSINESS

TIGER'S GAMBLE

The uncertainty surrounding **Tiger Woods'** return at the Masters Tournament (Apr. 8-11) after a nearly five-month absence has many sports books projecting record betting totals for a golf tournament. Gamblers worldwide will wager $60 million on the 2010 Masters, a 50% increase on the typical $40 million, because of Woods' appearance, estimates **Pregame.com**, the largest handicapping information Web site compliant with U.S. laws. Look for Tiger to resurface in ads, too. *The Wall Street Journal* reported on Apr. 7 that **Nike** was set to air a new TV spot featuring the scandal-plagued golfer.

STRATEGY

EUROPEAN AUTO UNION

In the latest step toward auto industry consolidation, **Renault-Nissan** and **Daimler** on Apr. 7 announced plans to share the costs of developing engines and small-car technologies. As part of the linkup, they will swap 3.1% stakes. The partnership is projected to generate $5.3 billion in savings and revenues over five years, with the companies jointly developing Renault and Daimler subcompacts, and Daimler providing engines for Nissan's Infiniti line. The move underscores the pressure on automakers for economies of scale. The trio produces a combined 6.7 million vehicles annually, fewer than No. 1 **Toyota** but ahead of European rival **Volkswagen.**

LEADERSHIP

ELECTORAL ECONOMICS

With Britain struggling with a yawning budget deficit, economic platforms could prove decisive in parliamentary election scheduled for May 6. That gives unusual prominence to the two leading contenders for Chancellor of the Exchequer. **Alistair Darling**, who would

THE OPTIMISM METER

CONTINUED IMPROVEMENT



The Meter hit 55 on Apr. 6, up from 52 one week earlier. Only 15% of Americans believe that U.S. stocks will lose value over the next 12 months, while 32% say the rally will continue. Developed by ***Bloomberg BusinessWeek*** using data from pollster **YouGov**, the Meter is a proprietary measure of sentiment and expectations, economic statistics, and market forecasts. It evaluates shifts in outlook among individuals, professional investors, and economists in areas of U.S. economic growth, jobs, equity markets, and real estate.

Calculated using consumer polling, economic forecasts, and financial markets data; 0=lowest and 100=highest

Data: YouGov, *Bloomberg BusinessWeek*

$17 billion

Unfunded liabilities of the GM and Chrysler pension plans

www.journal-plaza.net & www.freedowns.net

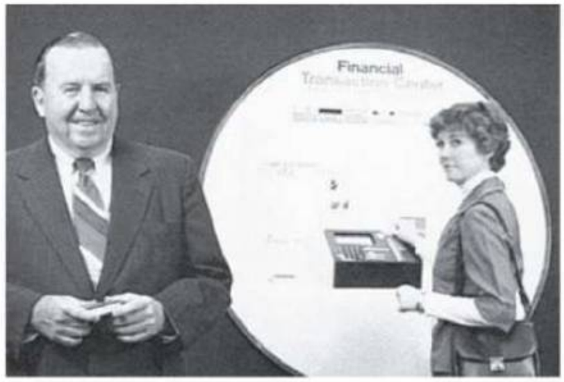
EXECUTIVE SUMMARY

stay on in that post if Labour prevails, favors a redistribution of income. He has already raised the personal income tax rate on top earners (those making 150,000 pounds and above) to 50% and wants to introduce a levy on purchases of properties worth more than $1.52 million. Darling's plan to notch up contributions for unemployment insurance has drawn opposition from business. His opponent, Anglo-Irish aristocrat **George Osborne** of the Conservative Party, wants bump up the threshold for the inheritance tax to $1.5 million, from $500,000.

FINANCE

ARGENTINA'S IRON LADY

President Cristina Kirchner moved forward on a controversial plan to tap central bank reserves to help cover a $204 million payment to bondholders. The government is looking to pave the way for a restructuring of debt that Argentina defaulted on in 2001. That, in turn, would facilitate the country's eventual return to the international capital markets. A four-month effort by opposition legislators to block the administration from siphoning off foreign reserves has been undermined by infighting.



McCoy in a print ad for City National Bank in 1976

BANKING'S EARLY ADOPTER

John G. McCoy, the man who transformed a small Columbus (Ohio) bank into one of the largest in the country, died on Apr. 4 at the age of 97. McCoy, who was chief of **Banc One** from 1958 to 1983, was a banking pioneer. In 1950, the bank, then known as City National Bank & Trust, inaugurated the first drive-through branch in the Midwest and began installing automated teller machines in 1970. McCoy also embraced innovations such as credit and debit cards. And he did not shy away from unorthodox marketing efforts. Facing down angry board members in 1962 over the use of comedian **Phyllis Diller** in radio and TV commercials, he said: "Gentlemen, it's very simple. You can have either dignity or dividends. I vote for dividends." Banc One was acquired by **Chase** in 2004.

IDEAS I LOVE WARREN, WHY OH WHY DO I LOVE WARREN...

Ah, Paris in the springtime. Exploring The City of Light is a treat almost any time of year, but the first weekend of May is especially inviting. Visitors could watch the May Day parade from the Place de la Bastille or attend a twilight concert at the Jardin de Luxembourg.

So what could possibly compete with that? Try Omaha. A nonstop airline ticket from New York to Paris on the first weekend in May costs $1,142. A Continental Airlines flight to attend Warren Buffett's Berkshire Hathaway shareholder meeting in Omaha the same weekend: $1,433, according to a Mar. 31 Bloomberg News story.

Last year a record 35,000 people attended the event the Oracle of Omaha once called "Woodstock for capitalists." To capitalize on this year's bout of Buffett mania, carriers including Continental and Delta have been raising prices. They're asking four times the normal rate for round-trip tickets for nonstop flights.

Attendees will fill the Qwest Center arena to listen as Buffett fields questions on investing, politics, and the economy. Extracurricular activities may include visits to former President Gerald Ford's birth site and what's billed as the world's largest indoor desert. Is all that worth more than a thousand dollars for a weekend in Omaha?

Before you answer, consider this: We'll always have Paris. Sadly the same cannot be said of the 79-year-old Buffett.



Buffett strumming with a bluegrass band at Berkshire's meeting in 2007

(BOTTOM) CHRIS MACHIAN/BLOOMBERG/GETTY IMAGES

www.journal-plaza.net & www.freedowns.net

THE BAR JUST GOT *A LITTLE HIGHER.*

1 of 24 leading national money center banks and thrifts in the KBW Bank Index.*

A Top 30 U.S. Bank by market capitalization.**

"This is a bank that can clearly stand on its own two feet."
- Jim Cramer, CNBC†

Investment-grade credit rating by S&P, Moody's and Fitch.

What does it take to grow while the industry is still in a state of flux? A rock-solid vision, inspired leadership and a company-wide commitment to deliver nothing but the best service to its customers. That's why First Niagara has maintained an unbroken record of dividends and profits, increased business and consumer lending, and raised nearly one billion dollars of capital from our shareholders. We're growing—and can help you do the same. The power to get more out of your money. The power of First Niagara.

FIRST NIAGARA

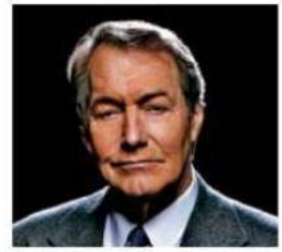
Visit us at fnfg.com

MEMBER FDIC

*Keefe, Bruyette & Woods, Inc. has not endorsed the information contained in this presentation and accepts no responsibility for its content.
The KBW Bank Index is a registered trademark of Keefe, Bruyette & Woods, Inc.
**Ranked as of 2/17/10.
† Jim Cramer, *Getting Back to Even* (Simon & Schuster).

www.journal-plaza.net & www.freedowns.net

AT THE TABLE CHARLIE ROSE





SHORT-SELLER JIM CHANOS
Red Flag Over China

(FROM TOP) BRAD TRENT; DANIEL ACKER/BLOOMBERG

Among the most storied members of the bad-news brotherhood of short-sellers is Jim Chanos, president of the $6 billion hedge fund Kynikos Associates. Chanos went short on Drexel Burnham Lambert and Enron, among other prescient plays in the past. Now he is betting that China's real estate market is headed for a fall. Kynikos, by the way, means cynic in Greek. Below are edited excerpts from an interview that will air soon.

CHARLIE ROSE
It's going to be that bad for China?

JAMES CHANOS
I think it's going to be that bad for the property market in China. Let's be clear: What we're talking about is a world-class—if not *the* world-class—property bubble.

What makes it a bubble?
What we define as a bubble is any kind of debt-fueled asset inflation where the cash flow generated by the asset itself—a rental property, office building, condo—does not cover the debt incurred to buy the asset. So you depend on a greater fool, if you will, to come in and buy at a higher price. We're seeing behavior [we saw] in 2005 in Miami or '06 or '07 in Dubai.

You have said it's a thousand times worse than Dubai.
Well, we said that [with tongue] firmly planted in cheek. But then again, according to a news report this week, there's a developer that's going to put in a new Times Square in suburban Beijing, replete with 32 Broadway theaters.

www.journal-plaza.net & www.freedowns.net

You're beginning to hear about these bizarre developments in China, indoor ski resorts similar to what we saw in Dubai.

O.K. But why don't more people say Chanos is right about the bubble? Why are you standing almost alone?
Well, I'm not standing almost alone, actually. There were a number of commentators who were writing about overcapacity in '09. But anytime you make a call like this, particularly if you are viewed as having an embedded financial interest in something going down, you're going to be pretty much off by yourself. There are an awful lot of very powerful vested interests, including the Chinese government, that want to keep things going for a while.

What can Beijing do if it buys into the idea real estate prices are approaching a bubble?
They've already begun to take some steps. We're seeing jawboning—attempts to talk the market down. That's not having much of an effect according to the latest prices. They've also begun to take some steps such as requiring higher down payments for second homes. But the fact is the game has to keep going. They're on this treadmill to hell because 50% to 60% of GDP is construction. And if they stop construction, you'll see GDP growth go negative quickly. That's not going to happen because in China, people are rewarded at almost every level of government for making their economic growth numbers. The easiest way to do this: put up another building. So they're really hooked on this sort of heroin of real estate development.

THEY'RE REALLY HOOKED ON THIS SORT OF HEROIN OF REAL ESTATE DEVELOPMENT

Tom Friedman has said never short a country with $2 trillion in foreign currency reserves.
The last two economies that had similar foreign currency reserves relative to the size of their economies were Japan in 1989 and the U.S. in 1929. I'll let that be the end of that discussion.



For Sale: Perusing the offerings at a Shanghai real estate agency late last year

I read today about a major private equity firm with billions invested in the belief that China will be the world's biggest economy by 2035. They wouldn't do that if they didn't think China could handle this housing bubble.
The perception seems to be that China will grow out of this situation. But the problem with that argument is the real estate being built is not for the masses. This is not affordable housing for the middle class. This is high-end condos in major urban areas and high-end office buildings. Just to give you an idea, right now construction costs in China are starting to hit $100 to $150 per square foot in some cities. That doesn't sound like a lot by Western standards, but it means a condominium basically presented to you with no floors, no walls, no appliances costs the average Chinese two-income couple $100,000 to $150,000 U.S. That Chinese two-income couple in their 30s probably makes combined $7,000 or $8,000 a year. You do the math. Even if they were making $10,000 to $15,000 a year, they couldn't carry a $150,000 condo. This is very similar to someone making $40,000 in the U.S. at the height of our bubble buying a $600,000 or $800,000 house. We know how that ended.

Give me the timeline you see.
Ah, that's the trouble, the timeline. If I knew that, I'd be a rich guy. My guess is this begins to run its course in late 2010, 2011.

So if there is a collapse, what are the ramifications?
These things shake out in different ways. If they devalue the RMB, does it bring out a trade war? Does China fry its burgeoning middle class who are becoming real estate speculators? Does it sacrifice the Western investors? I mean, I don't know.

What are you shorting?
There are ways to play Chinese companies outside of China. Either they trade in Hong Kong or New York. Probably more important from an investment point of view, this has implications for the people selling stuff to China—cement, glass, copper, steel. |BW|

Watch Charlie Rose on Bloomberg TV weeknights at 8 p.m. and 10 p.m.

WENG LEI/IMAGINECHINA/AP PHOTO

www.journal-plaza.net & www.freedowns.net

For
Small
Business

cisco



©2009 Cisco Systems, Inc. All rights reserved.

I'm a small business CEO.

I'm also the CIO, COO, CFO and the
"can you brew the coffee"– O.

I'm constantly running around.

Cisco wireless technology allows me to do so.

And stay connected to customers, suppliers
and bamboo worldwide.

I'm a small business CEO.
And business simply couldn't be busier.

Follow amaZulu and more heroes of the
human network at cisco.com/smallbiz.

welcome to
the human network. cisco.

www.journal-plaza.net & www.freedowns.net

BUSINESS OUTLOOK | **RICH MILLER AND SIMON KENNEDY**

GLOBAL INFLATION IS LOW—AND FALLING

Does that sound like good news? Think again. The world economy has struggled back onto its feet, but pricing power is still dangerously low, risking a Japan-style deflationary malaise

With the financial crisis now squarely in the rearview mirror, the global economy seems poised for a sustained—albeit historically anemic—upturn. But that doesn't mean Federal Reserve Chairman Ben Bernanke and European Central Bank President Jean-Claude Trichet can let the signs of a nascent recovery distract them from the looming dangers of deflation.

That prospect is more real than many care to admit. Core consumer prices, which strip out volatile food and energy costs, rose by a record-low 1.5% in February from a year earlier in the 30 countries that form the Organization for Economic Cooperation & Development. And Goldman Sachs economists see core inflation falling further this year, to about 0.3% in the U.S. and 0.2% in the euro area.

This disinflationary trend is driven by the slack built up during the global economic slump. The 1.9% growth in OECD economies forecast for 2010 still will leave their total output for the year 4.1 percentage points below potential. With that much excess capacity, companies will remain under pressure to cut prices to keep customers.

Policymakers have "gotten their eye off the immediate ball, which is deflation risk," says Joseph Gagnon, a former Fed official who is now a senior fellow at the Peterson Institute for International Economics in Washington. "It's misguided for anybody to be talking about exiting" from stimulus during the next year.

The investment markets are already showing signs of this weakened pricing outlook. The gap between yields on U.S. Treasuries and Treasury Inflation-Protected Securities (TIPS) due in two years, a good measure of the outlook for consumer prices, stood at 1.56% on Apr. 5, down from a high of 2.92% in June 2008.

Falling core inflation "suggests an on-hold type of stance [from central bankers] for longer than was presumed in the past," says Bill Gross, co-chief investment officer at bond giant Pimco. New York University economist Nouriel Roubini agrees. He sees major central banks "keeping zero rates or near-zero rates at least to the middle of next year." And some economists are pushing back their forecasts for when the Fed and the European Central Bank will raise their benchmark interest rates, now near zero and 1%, respectively, well into 2011.

As Japan has learned painfully over the past decade, deflation can be debilitating and difficult to reverse. Faced with falling prices for their products, companies are unlikely to expand or add workers. Meanwhile, consumers delay purchases, hoping for better deals in the future.

Central banks can't easily respond because falling prices and wages make it harder for companies and consumers to repay existing loans, reducing their willingness to borrow and spend more even when interest rates are low.

Signs of the loss of business pricing power abound. For example, Dow Chemical, the largest U.S. chemical maker, reported in February that its prices on products worldwide fell 17% in 2009. And core consumer prices in the U.S. climbed only 1.3% in February from a year ago, the smallest increase in six years. In the three months through February, they rose at an annualized rate of just 0.1%.

Some European nations are already flirting with deflation. In Ireland, consumer prices fell 2.4% in February from a year earlier on an EU-harmonized basis, the 12th consecutive monthly drop. They fell seven times in Spain and 10 in Portugal during the past 13 months.

While that may allow those economies to boost exports by making their goods more competitive, lower prices could hurt more than help by forcing up real wages at home and the cost of servicing debt, says Eoin O'Callaghan, an economist at BNP Paribas.

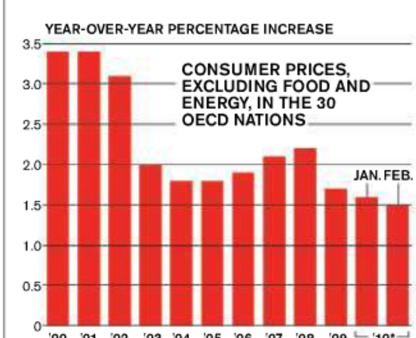
Global inflation also slid after recessions in the 1970s and 1980s. Bruce Kasman, chief economist at JPMorgan Chase, says what's different this time is the "prospect for record-low levels of developed-world core inflation during the first year of an economic expansion." That risks letting deflation take hold, with dire consequences. |BW|

-1.1%

Decline in Japanese prices, excluding food and energy, in February

Data: Japan Cabinet Office

SINKING PRICES



*Data available only for two months of 2010

Data: OECD

CHART BY STANFORD KAY

www.journal-plaza.net & www.freedowns.net



www.journal-plaza.net & www.freedowns.net

SAS® Business Analytics Software

Data Management | Analytics | Reporting | Targeted Business and Industry Solutions



What if you could increase revenue by 66% using your data to make confident, fact-based decisions?

You can. SAS gives you The Power to Know.®

SAS Business Analytics software helps organizations across every industry discover innovative ways to increase profits, reduce risk, predict trends, and turn information assets into true competitive advantage.

www.sas.com/decisions
for a free research paper

SAS | THE POWER TO KNOW.

SAS and all other SAS Institute Inc. product or service names are registered trademarks or trademarks of SAS Institute Inc. in the USA and other countries. ® indicates USA registration. Other brand and product names are trademarks of their respective companies. © 2010 SAS Institute Inc. All rights reserved. S51754US.0210

www.journal-plaza.net & www.freedowns.net

NUMBERS

NO RECESSION HANGOVER FOR THE BOOZE BUSINESS

by Tara Kalwarski/Charts by Stanford Kay

Sales of most alcoholic beverages are proving to be recession-proof. Though sales of top-shelf spirits, wines, and beers are flat or have slipped, cheaper brands have shown solid sales growth. They tend to have the biggest market shares, too.

Big Alcohol: The world's biggest brewers, distillers, and vintners are all headquartered outside of the U.S.

BIGGEST ALCOHOL COMPANIES BY MARKET CAP*

COMPANY/COUNTRY	MARKET CAP IN BILLIONS	PROFIT MARGIN IN 2009**
ANHEUSER-BUSCH INBEV/BELGIUM	$81	13%
COMPANHIA DE BEBIDAS DAS AMERICAS (AMBEV)/BRAZIL	57	26
DIAGEO/U.K.	42	16
HEINEKEN/NETHERLANDS	25	7
PERNOD-RICARD/FRANCE	22	14

* As of Mar. 29; excludes companies that had not yet reported calendar year 2009 sales
**Calendar year net income divided by total revenue

Data: Bloomberg, Capital IQ

BRANDS AMERICANS LOVE TO DRINK

These are the five top-selling wines, spirits, and beer brands at supermarkets and other retail stores in the U.S.

TOP-SELLING BRANDS*/PERCENTAGE SHARE OF CATEGORY

WINE	
SUTTER HOME	4.0%
YELLOW TAIL	3.7
BAREFOOT	3.7
FRANZIA	3.3
WOODBRIDGE BY ROBERT MONDAVI	3.1

SPIRITS**	
SMIRNOFF	6.8%
BACARDI	4.1
JACK DANIELS	4.0
CAPTAIN MORGAN	3.9
CROWN ROYAL	3.0

BEER**	
BUD LIGHT	21.4%
BUDWEISER	8.9
COORS LIGHT	7.6
MILLER LITE	6.9
NATURAL LIGHT	4.7

*Ranked by dollar sales at supermarkets, gas stations, and drug and convenience stores, for the 52 weeks ended Feb. 21
**Includes sales at mass-market retailers (excludes Wal-Mart, club stores, and liquor stores)

Data: Information Resources, Inc. (IRI)

Thirsty for Value: Store sales of high-priced alcoholic beverages are flat to lower.

PERCENTAGE CHANGE IN DOLLAR SALES COMPARED WITH ONE YEAR EARLIER*

SPIRITS

+1.4%
Growth of value-priced liquors. Sales of top-shelf spirits were flat.

WINE

+6%
Growth of $9 to $12 bottles of table wine. Sales of $20+ bottles fell 1.6%.

BEER

+7.3%
Growth of the cheapest beer segment. Sales of imported beers fell 3.8%

*At food/drug/convenience/liquor/other stores, for the 52 weeks ended Mar. 6 Data: Nielsen

www.journal-plaza.net & www.freedowns.net

22 Why Conan is adrift
24 Honda's U.S. troubles
26 A Saudi credit squeeze

The Wall Street Reform Fight We Really Need

The coming Senate battle over the Dodd bill will be loud and fierce—and it will distract attention from a simple, powerful change that could actually buffer banks against the next financial crisis

COMMENTARY

By Paul M. Barrett

When the Senate returns from spring break on Apr. 12, the debate over banking regulation will command the center ring. The political press will track, in excruciating detail, the trapeze act of Banking Committee Chairman Chris Dodd (D-Conn.) as he reaches for the elusive 60th vote needed to push his bill past a GOP filibuster. The clowns on both sides will emit their reliably windy rhetoric: Republicans claiming that the legislation will invite more outrageous bailouts, Democrats that this bureaucratic reshuffle will fend off the next financial cataclysm.

The whole depressing circus will be beside the point. There's one clear issue at the heart of regulatory reform—one obvious measure that lets you know whether the bill is worth the price of admission—and the Dodd legislation ducks it. What's missing are strong rules forcing banks to raise capital and liquidity levels. Such restrictions would be a real buffer against the sort of risk-taking that fueled our recent crisis.

Instead of building this buffer, the Senate will argue about issues that amount to little more than elaborate distractions. First, the Dodd bill would create a consumer protection agency to prevent home loan and credit card abuses. Republicans, echoing JPMorgan Chase CEO Jamie Dimon and his cohorts, attack the plan as hostile to capitalism. Dodd has compromised by sequestering the watchdog within the bank-friendly Federal Reserve. Look for him to offer more cosmetic changes to tempt GOP crossover votes.

Additional consumer protection makes good sense. But fabricating a brand-new agency smacks of symbolism. Existing regulatory bodies already have all of the powers that would be invested in any new agency. With or without a reform bill, if the White House put real cops on the banking beat, we would see real enforcement. If we get the sort of do-nothing crews we've had since Ronald Reagan, rearranging the seating charts won't make much of a difference.

The other fake debate will focus on proposals to enhance Washington's authority to put to rest troubled financial giants—a less traumatic "do not resuscitate" procedure for the next Lehman Brothers. The Democrats want to give regulators more tools to liquidate endangered Wall Street Goliaths without the panic sparked by Lehman's abrupt Chapter 11. Republicans, warning that their mollycoddling foes are encouraging taxpayer giveaways, argue that ordinary bankruptcy court is sufficient. Again, the argument seems tangential. In the midst of a future meltdown—God help us—politicians aren't going to risk either the liquidation of interconnected financial

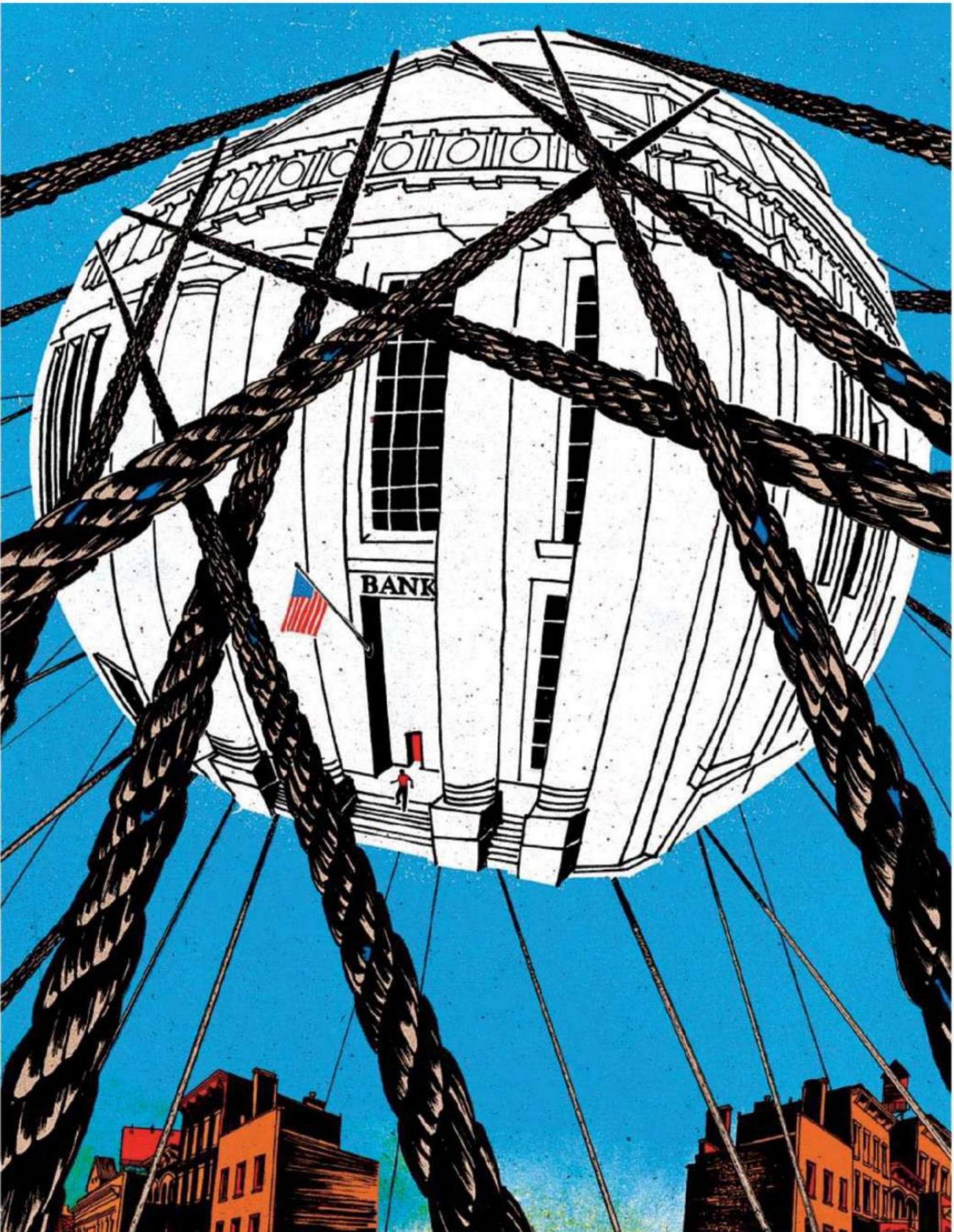
$519 billion

The amount of capital raised by U.S. banks since 2007

Data: Bloomberg News

ILLUSTRATION BY JACOB THOMAS

www.journal-plaza.net & www.freedowns.net



www.journal-plaza.net & www.freedowns.net

COMPROMISING ON REFORM | Selected provisions from the Dodd bill

Creates a new financial consumer watchdog agency	Provides tools for liquidating troubled Wall Street firms	Establishes systemic-risk council	Reshuffles bank oversight responsibilities	Requires more transparency from credit-rating firms
It will be housed within the bank-friendly Federal Reserve	That doesn't preclude too-big-to-fail rescues	Leaves unclear why panel would be more vigilant than current structures	Doesn't integrate regulatory efforts as Dodd originally hoped	Doesn't eliminate fundamental conflicts of interest

institutions or another Chapter 11 train wreck. As long as we allow the leviathans to get too big to fail, they will be, well ... too big to fail. We will rescue them to prevent worldwide depression. That, predicts Douglas J. Elliott, a former investment banker who is now at the Brookings Institution, will likely lead to "the same type of stumbles and traumas as we just went through."

Which brings us to the issue that deserves attention but will be largely absent from the Capitol Hill theatrics: capital and liquidity requirements. Capital is the investment in a financial institution that doesn't have to be paid back to anyone. When a bank's assets—say, exotic real estate-backed securities—fall suddenly in value, its capital provides a bulwark against disaster. In the last debacle, too many Wall Street institutions lacked sufficient capital. They were too highly leveraged. Since 2007, U.S. banks have boosted cash reserves and raised $519 billion of capital at the urging of regulators, Bloomberg News reported last month. As memories of the crisis fade, however, those stockpiles will diminish—unless someone sets tough rules. As a chastened Alan Greenspan told the Financial Crisis Inquiry Commission on Apr. 7: "The primary imperatives going forward have to be increased risk-based capital and liquidity requirements on banks and significant increases in collateral requirements for globally traded financial products."

In lamentably vague terms, the Dodd bill authorizes regulators to impose stricter mandates for bank capital. It also requires more stringent standards for liquidity, the supply of cash or easily sold holdings. More capital and liquidity means less risk, but also less profit on a per-dollar-invested basis. That's why bankers inevitably try to whittle down stores of capital. They warn that if you force them to keep more cash they will lend less, and they are right—but the argument is a red herring. Having a bigger capital buffer makes lending less cyclical; it allows banks to keep writing loans even in bad times. A 1999 analysis by the Basel Committee on Banking Supervision concluded that while certain sectors such as real estate seem to be cooled by higher capital standards, experts "have been rather less successful at identifying an impact at the aggregate economy level." It added that "by promoting financial stability, their overall effect on economic growth may be positive."

Simon Johnson of MIT's Sloan School of Management contends in his new book, *13 Bankers,* that higher capital standards aren't enough. He wants to shrink the too-big-to-fail institutions until we can afford to let them collapse without fear or favor. Johnson and co-author James Kwak propose strict caps that would force banks to shed assets if they want to place bets like casino gamblers. Anti-bailout Republicans should agree. "If there are no financial institutions that are too big to fail," Johnson maintains, "there will be no implicit subsidies favoring some banks as opposed to others. Creditors and counterparties will play their necessary role of ensuring that banks do not take on too much risk."

WITHOUT GLOBAL STANDARDS ON CAPITAL AND LIQUIDITY, WALL STREET WOULD SET ONE JURISDICTION AGAINST ANOTHER IN A GAME OF REGULATORY ARBITRAGE

Shrinkage makes sense. It's also far beyond what Congress is willing to mandate. The Dodd bill doesn't even include specific numbers for capital requirements; that's left to the regulators. Granted, if Democrats had tried to set hard capital levels, Wall Street's lobbying army would have intensified its campaign to blow up the bill. That would have been a battle worth having, however—and a better use of political ammunition than the coming skirmish over a consumer protection agency. Even if Dodd prevails, we won't know whether future regulators will set aggressive capital and liquidity rules.

Any meaningful action on capital and liquidity will have to play out internationally. Without global standards, Wall Street would set one jurisdiction against another in a game of regulatory arbitrage. So when the financial reform show wraps up in Washington, it will move to Switzerland, where the Basel Committee sets standards for 27 countries and territories. That's the forum where later this year we'll see whether the Obama Administration intends to take bold steps to challenge the Wall Street oligarchy.

It won't be easy. Bloomberg reported in March that amnesiac European bankers are already complaining that Basel shouldn't limit risk to a degree that slows money flows into their economies. If the Basel negotiations do produce tough guidelines, the White House will have to summon the fortitude to enforce them at home. That would be a circus worth watching. |BW|

www.journal-plaza.net & www.freedowns.net

AWARD-WINNING SHARP MFPs HAVE ALL YOUR BASES COVERED.



2009 BLI BUYERS LAB LINE OF THE YEAR

Sharp Electronics MFPs

Getting your office team to perform at a championship level requires consistent high performance. You should expect the same high-level performance of your office MFP. For the second time in three years, Sharp has won the prestigious Buyers Laboratory Award for MFP Line of the Year. Among the many stats BLI tests for are reliability, image quality, productivity, ease of use, and overall value. Sharp has also won over a dozen BLI awards of achievement across the entire spectrum of color and monochrome MFPs. Learn more about how Sharp MFPs can be your office MVP, and give your team a competitive edge.

WORK WITHOUT LIMITS sharpusa.com/documents

SHARP®

Sharp is a registered trademark of Sharp Corporation. All other trademarks are trademarks or registered trademarks of their respective owners.
© 2010 Sharp Electronics Corporation. All rights reserved.

www.journal-plaza.net & www.freedowns.net

Still Funny, Though His Timing is Off

Prospective TV and cable networks are struggling to find the right programming slot for Conan O'Brien

By Ronald Grover and Andy Fixmer

The last time America saw Conan O'Brien, the red-haired, late-night talk show host was riffing on an electric guitar as comedian Will Ferrell donned a shoulder-length blond wig to screech his way through the Lynyrd Skynyrd song *Freebird*. As final shows go it was an appropriately wacky end to NBC's high-profile firing of O'Brien from *The Tonight Show*. Celebrities denounced NBC. Pro "Coco" fans demonstrated outside the studio.

So you'd think landing another major TV gig would be a snap, right? Actually, no. Since leaving the air on Jan. 22, O'Brien has been flitting from one potential deal to another as network and cable executives struggle to find the right programming slot for his show. Fox wants him for its 11 p.m. slot but hasn't yet convinced its TV affiliates—or even the stations owned by corporate parent News Corp.—they should carry it. A 7 p.m. syndicated show against the likes of *Jeopardy!* or *Entertainment Tonight* is possible, as is a show on cable, but both face big challenges.

$45 million

Value of NBC separation deal for O'Brien and his staff

Data: *Bloomberg BusinessWeek*

"Getting Conan is a once-in-a-generation opportunity to get a well-known talent with a following," says Bill Carroll, director of programming for Katz Television Group, which advises TV stations on licensing shows. "But the timing couldn't be worse. Every scenario for him has more risks than upside."

O'Brien's most daunting problem is breaking into a late-night lineup that has grown overcrowded in the last five years. A new show would have to compete against NBC's Jay Leno, CBS's David Letterman, and ABC's *Nightline*. And younger viewers who might flock to O'Brien are instead watching shows like Comedy Central's *The Colbert Report* or *Family Guy* on the Cartoon Network's Adult Swim, says Brad Adgate, head of research for the TV ad-buying company Horizon Media. Some of Fox's larger stations meanwhile are airing *The Office* reruns and have signed expensive deals for reruns of NBC's hit show *30 Rock* in some of those late-night time slots.

Fox Entertainment President Kevin Reilly enjoys a strong relationship with O'Brien, with whom he worked while both were at NBC. But Fox first needs to persuade its affiliates to take a chance. "It's been a very challenging environment for the station business coming off a recession," Reilly says. And he acknowledges that if he can strike a deal with affiliates it could take several years to stitch together a single time slot because some stations will continue to run sitcoms after their news programs. One strategy might be to start the show at 11 p.m. in some markets and later in others, according to TV executives with knowledge of Fox's options. News Corp. could also air O'Brien on some of its less watched affiliate group MyNetworkTV's stations in New York, Chicago, and elsewhere. With shows like *Glee* and *The Cleveland Show*, Reilly has boosted Fox's ratings by 3% this year and leads in the sought-after 18-to-49-year-old age group. O'Brien would help extend Fox's edgier brand to late night as well, says Horizon's Adgate.

Not everyone at News Corp. agrees. Fox's syndication arm, which sells reruns of *The Simpsons* and other shows, could lose a late-night market to O'Brien. And Fox-owned stations would likely be forced to swallow losses for reruns they've already licensed. "We're giving it a lot of thought," CEO Rupert Murdoch said in a February conference call. "If the program people can show us that we could do it and be fairly confident of making a profit on it, we'd do it in a flash."

Fox is unlikely to spend the $50 million a year that NBC spent to produce *The Tonight Show*, say two sources with knowledge of the talks, or to pay its host's $12.5 million salary. O'Brien, who together with his staff left NBC with $45 million in network severance, has been looking for places other than Fox to yuk it up. Team Conan, which includes manager Gavin Polone and William Morris Endeavor Entertainment agent Rick Rosen, has chatted up pay cable channels Starz and Showtime on deals similar to the show Bill Maher hosts on HBO, three sources with knowledge of the talks say.

O'Brien is also considering taking his shtick to an earlier hour. CBS's syndication unit, which distributes *Jeopardy!* and *Wheel of Fortune*, has talked with him. So has Debmar-Mercury, a unit of Lions Gate Entertainment that syndicates the game show *Family Feud* and sitcom *Tyler Perry's House of Payne*, which wants him for 7 p.m. That hour might appeal to O'Brien, who wouldn't face the prospect of coming in fourth in the late-night wars. But a comedy-style talk show has never worked in that time slot, according to Katz Television's Carroll. That's why Sony considered, then passed, on the idea.

Leno says he expects O'Brien to return to late night. "He'll come back, and he'll be strong," he told *The View* co-host Joy Behar in a video interview she posted on the Web. On Apr. 12 a newly bearded O'Brien will begin his 30-city *The Legally Prohibited from Being Funny on Television Tour*. For now, says Polone, the comedian is "not thinking of anything except opening the tour with the strongest show possible." |BW|

ILLUSTRATION BY JIM COOKE

www.journal-plaza.net & www.freedowns.net



HSM

WORLD INNOVATION FORUM
June 8-9, 2010 | Nokia Theatre | New York City

Leading & Executing Change
Ursula Burns
Wendy Kopp
Chip Heath

Design & Technology
Robert Brunner

Marketing & Social Media
Andreas Weigend
Seth Godin
Biz Stone

Sustainability
Joel Makower
Jeffrey Hollender

Health Care
Michael Porter
Michael Howe
Jeff Kindler

To register and for more information:
Visit **wifny.com**
Call 1 **866 711 4476**
Email **info.us@hsmglobal.com**

Free Gift! Text INNOVATION to 69302

When registering, use code: **WIFBW2**

Knowledge Partner
Capgemini

Automotive Partner
Audi

Sponsors
imaginatik
STRATEGYN
Shell
Pitney Bowes

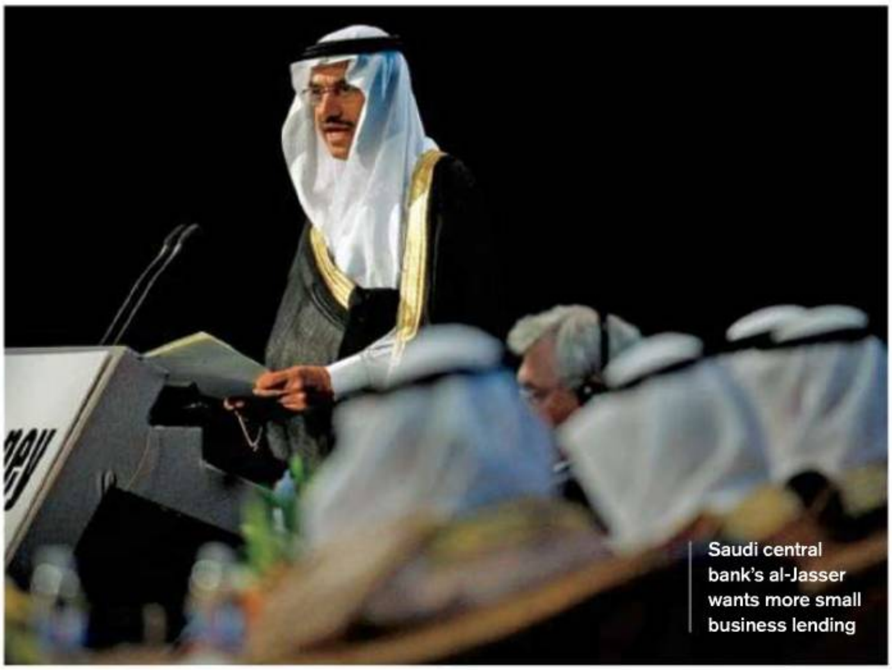
Academic Sponsor
MIT Sloan Executive Education

Media Partners
THE WALL STREET JOURNAL
BusinessWeek
Bloomberg

www.journal-plaza.net & www.freedowns.net

Saudi Banks Put the Squeeze on Business

In the wake of two big defaults, lenders have tightened credit, which may threaten the kingdom's growth



Saudi central bank's al-Jasser wants more small business lending

By Camilla Hall

Majid al-Saadi's father and grandfather used to get bank loans simply by giving their names. Now the 31-year-old owner of Saudi technology company Vision Horizons needs detailed earnings statements and proof of collateral. "It has become more complicated, even if you had a good relationship with the bank," al-Saadi says. "Especially for small and medium-sized businesses, you have to have solid guarantees—land, real estate."

For borrowers in Europe and the U.S., documents and dates of birth are standard. In Saudi Arabia, where many older people don't have birth certificates, finance was often based on a handshake. But that tradition has come to an end in the wake of last year's defaults by two of the kingdom's best-known private companies, Saad Group and Ahmad Hamad Algosaibi & Brothers.

The two holding companies operate a variety of businesses and invest in stocks and real estate. Maan Al Sanea, the founder of Saad Group, ranked 62nd on the *Forbes* list of billionaires last year. In total, the businesses borrowed at least $15.7 billion from about 80 banks, according to documents provided by lenders. About $5 billion of that is owed to Saudi banks, Standard Chartered said in an Aug. 26 report; the rest is owed to foreign banks. Steelmaker Al-Tuwairqi Group, another Saudi Arabian family business, was forced to restructure $1.9 billion.

In response, Saudi banks have become much more careful about whom they lend to, raising concerns that their caution is hampering an economic revival. Bank lending to businesses in Saudi Arabia was flat last year after average annual growth of 27% from 2004 to 2008, according to Jadwa Investment in Riyadh. Lenders want "improved levels of disclosure, including release of audited financial statements," says Richard Groves, CEO of lender SABB in Riyadh.

Private companies account for almost half of the economy in the country. "The way it was done before is that you had many banks approaching us," said Aamir Al-Ghamdi, 30, marketing and business development manager at Quraish Trading, an importer of consumer goods. "Now, it's not that they come less. We don't see them at all."

Saudi Arabia is the world's largest exporter of oil, which represents 45% of its economic output. Crude now trades at about $85 a barrel, well above what the kingdom deems a "fair price." Yet if credit remains tight, economic growth will fall short of the 4% rate predicted by HSBC Holdings, Simon Williams, the Dubai-based chief economist at the British bank, said in a Mar. 4 report. The economy expanded by 0.2% in 2009. "We would have had a lot stronger recovery if the banks were lending," says Paul Gamble, head of research at Jadwa. "Until bank lending resumes to a reasonable pace, the private sector won't be able to fully participate in the recovery."

To augment the effects of a $400 billion government stimulus package, the Saudi central bank has trimmed a key interest rate to a six-year low of 2% and wants lenders "to get more serious about small and medium-scale lending," central bank governor Muhammad al-Jasser told Bloomberg in January. The Saudi government has increased funds at credit and savings banks to support smaller businesses and has established a program with banks to guarantee loans granted to local private companies.

0.2%

The growth rate of the kingdom's economy in 2009

Data: Saudi central bank

So far, though, al-Saadi is not seeing any benefits. "It's a daily challenge, the process with banks, to let them understand what you're dealing with," he says. "I'm suffering." |BW|

HASSAN AMMAR/AP PHOTO

www.journal-plaza.net & www.freedowns.net

Who are the visionaries changing the way we live?

Meet them on *Innovators*.
Only on Bloomberg Television.



Each week, *Innovators* features the people behind the latest technologies in:

Sports | Health | Design Inspired by Nature | War | Energy | Augmented Reality

Thursdays and **Fridays** at 9PM and 11PM, ET

DISH Network 203 | DIRECTV 353 | Verizon FiOS 104 | AT&T U-verse 222

Or check your local listings for Bloomberg Television on your cable system.

The Innovators Series is brought to you by:

**THINKERS ARE GREAT.
BUT DOERS CHANGE THE WORLD.**

LET'S DO AMAZING

hp

Bloomberg
TELEVISION

www.journal-plaza.net & www.freedowns.net



Cheap leases helped sales but didn't stop the share slide

JUSTIN SULLIVAN/GETTY IMAGES

Honda Slips Into Reverse

While competitors have benefited from Toyota's woes, U.S. market share for the "Japanese BMW" is falling

By David Welch

Given the troubles of archrival Toyota, Honda should be cleaning up this year. It isn't working out that way. After a decade of nonstop growth in the U.S., Honda Motor fell from a 10.5% share in the first quarter of 2009 to 10.1% in the same period this year. (Rival Nissan Motor now has 9%, up from 7.9%, and Hyundai Motor is up to 4.4%, from 4.2%.) Honda "has lost its mojo with new model launches," says Jessica Caldwell, a senior analyst at car shopping site Edmunds.com.

While Honda's sales are up 12.5% from last year's dismal first quarter, the overall market grew by 17.1%. The company once offered a sportier alternative to stodgy-but-reliable Toyota Motor, but Honda's cars now look pale alongside newer models from Nissan, Hyundai, Ford, and General Motors, says John Wolkonowicz, an analyst at IHS Global Insight. With its reputation for performance and handling, Honda "used to be the Japanese BMW," Wolkonowicz says. "It's not anymore."

Honda declined to make any executives available for this story. A spokesman says the company isn't concerned about market share; it is profitable and remains focused on providing reliable, safe, efficient cars. Nonetheless, Honda in March offered cheap leases to battle 0% financing deals from Toyota as that company sought to shore up sales in the wake of its recall problems. Honda's program boosted interest somewhat, but the market-share slide continued.

OUTSOLD 2 TO 1

The new Accord Crosstour is emblematic of Honda's woes. Honda launched the model in November, billing it as a mash-up of an SUV and a sedan. Trouble is, the Crosstour has neither the room of most SUVs nor the look and feel of a sedan, says James N. Hall, principal of 2953 Analytics, an auto consultancy in Birmingham, Mich. And the Crosstour only comes with a V-6 engine, pushing the price to $30,000. Not only is it about $3,000 more than Toyota's competing Venza but it also uses more fuel. This year the Venza has outsold the Crosstour by nearly 2 to 1.

Honda has similarly stumbled with the Insight. During the hybrid's splashy relaunch last year, Honda pitched it as a less expensive alternative to Toyota's Prius. In 2010, Honda has moved fewer than 5,000 Insights in the U.S., about one-sixth the number of Priuses Toyota has sold. And in March, Ford's Fusion hybrid edged out the Insight 1,670 to 1,652 even though the Fusion costs some 35% more. While the Fusion is roomier, it gets nearly the same gas mileage, about 40 miles per gallon.

Even Honda's core models are under pressure. The Civic compact, the No. 6 seller in the U.S. in 2009, is No. 7 this year, researcher Autodata reports, and sales of the CR-V are off by 4.2%. And while Accord sales are growing, Honda opted for more conservative styling when it relaunched the sedan last year. Now potential buyers are exploring other options; a year ago, only 5% of visitors to Edmunds.com interested in the Accord also checked out the Hyundai Sonata, and 6% looked at Ford's Fusion. This March, 12% of Accord shoppers considered the Sonata and 9% gave the Fusion a look.

One such shopper is Charles Summers, who works for a human resources firm near Atlanta. With his first child on the way, Summers figured he would trade his 2007 Hyundai Elantra for an Accord. But he found the styling bland and felt the Sonata was more comfortable. So he spent $26,000 for a Sonata, while a similarly equipped Accord would have cost more than $28,000. "I thought for sure I'd end up with an Accord," Summers says. And that's how market share slips away. |BW|

www.journal-plaza.net & www.freedowns.net

Smarter business for a Smarter Planet:

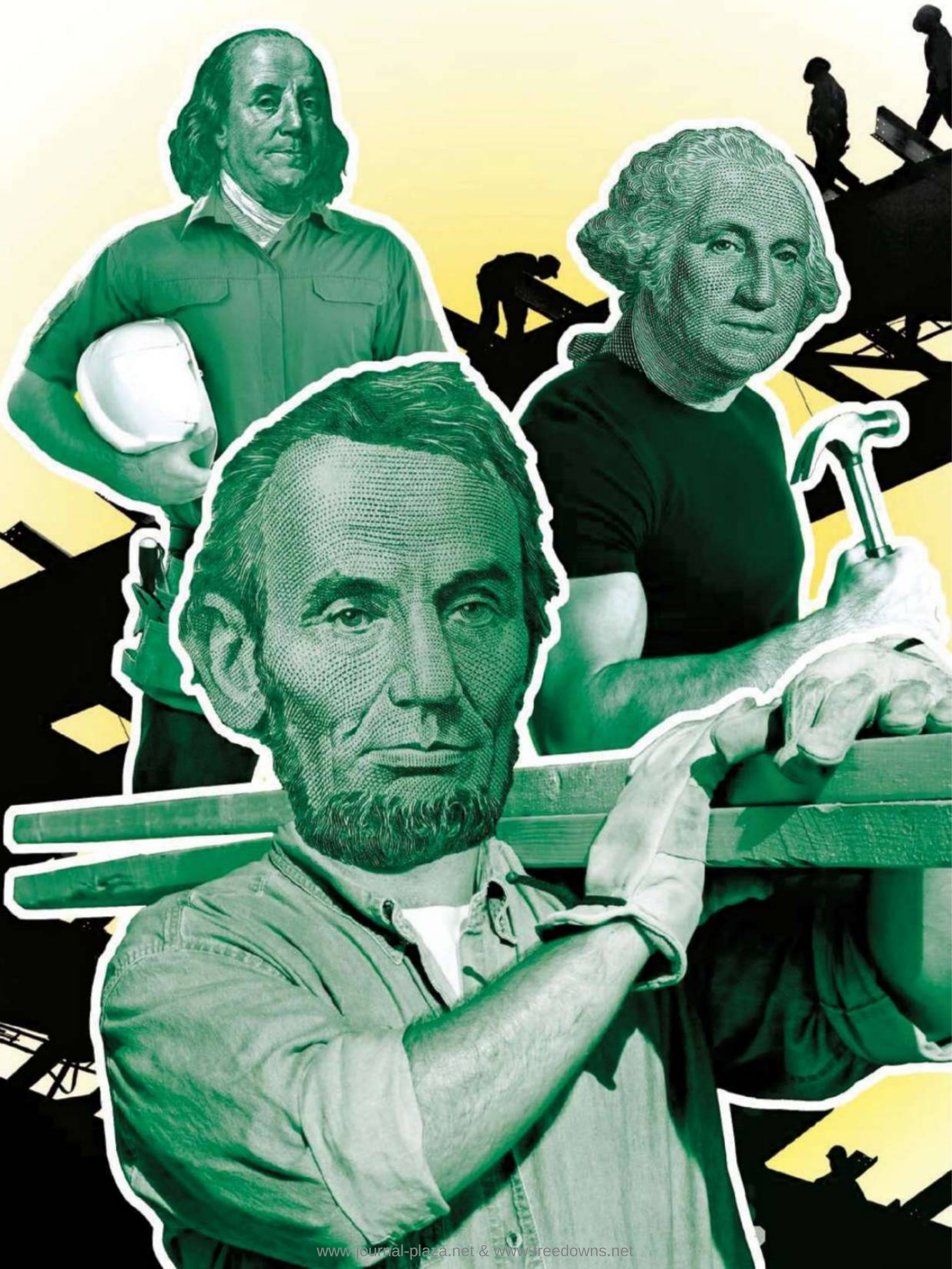
What if foresight were 20/20?

Today, CFOs are under more pressure than ever before to use information to fuel better business decisions. But is the information at their fingertips actually helping them do that? Many companies find themselves accessing information through management processes that can be slow, disconnected, error prone or all of the above. IBM Cognos® solutions give your finance team information they can trust, when and how they need it. Allowing them to use analytics to anticipate performance gaps, prioritize resources, gain insight into profit and growth—and make better decisions, faster. Companies have already used IBM Cognos solutions to reduce financial planning cycles by 77% and reporting cycles from days to minutes.

A smarter business needs smarter software, systems and services.
Let's build a smarter planet. ibm.com/cognoscfo

IBM, the IBM logo, ibm.com, Smarter Planet and the planet icon are trademarks of International Business Machines Corp., registered in many jurisdictions worldwide. Other product and service names might be trademarks of IBM or other companies. A current list of IBM trademarks is available on the Web at www.ibm.com/legal/copytrade.shtml. © International Business Machines Corporation 2009.

www.journal-plaza.net & www.freedowns.net



www.journal-plaza.net & www.freedowns.net

Polls say the economy is heading in the wrong direction. Markets say it's back on track. This time, the markets are right

WHY THE OBAMA PLAN IS WORKING

By Mike Dorning

Illustration by Julie Teninbaum

IT'S NEVER EASY TO SEPARATE POLITICS from policy, and the past 18 months have only increased the degree of difficulty. The U.S. has been through a historic financial crisis followed by a historic election and a series of historic federal gambles—from bailing out AIG and GM to passing a $787 billion stimulus and a $940 billion health-care reform bill. All that risk has made policy more complicated and politics more fraught ("You lie," "Babykiller").

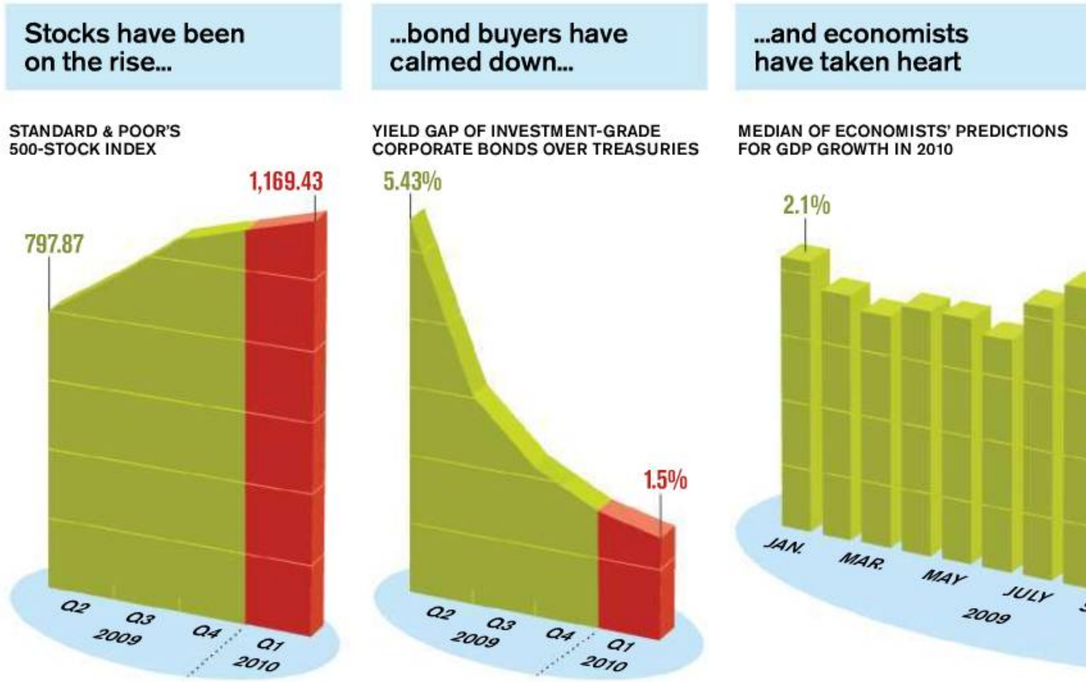
A Bloomberg national poll in March found that Americans, by an almost 2-to-1 margin, believe the economy has gotten worse rather than better during the past year. The Market begs to differ. While President Obama's overall job approval rating has fallen to a new low of 44%, according to a CBS News Poll, down five points from late March, the judgment of the financial indexes has turned resoundingly positive. The Standard & Poor's 500-stock index is up more than 74% from its recessionary low in March 2009. Corporate bonds have been rallying for a year. Commodity prices have surged. International currency markets have been bullish on the dollar for months, raising it by almost 10% since Nov. 25 against a basket of six major currencies. Housing prices have stabilized. Mortgage rates are low. "We've had a phenomenal run in asset classes across the board," says Dan Greenhaus, chief economic strategist for Miller Tabak + Co., an institutional trading firm in New York. "If Obama was a Republican, we would hear a never-ending drumbeat of news stories about markets voting in favor of the President."

Little more than a year ago, financial markets were in turmoil, major auto companies were on the verge of collapse and economists such as Paul Krugman were worried about the U.S. slumbering through a Japan-like Lost Decade. While no one would claim that all the pain is past or the danger gone (page 32), the economy is growing again, jumping to a 5.6% annualized growth rate in the fourth quarter of 2009 as businesses finally restocked their inventories. The consensus view now calls for 3% growth this year, significantly higher than the 2.1% estimate for 2010 that economists

www.journal-plaza.net & www.freedowns.net

INDICATORS NOW POINT IN THE RIGHT DIRECTION

The stock and bond markets have returned to health, and the consensus outlook is far brighter



Data: Bloomberg, Barclays Capital, Bloomberg survey

surveyed by Bloomberg News saw coming when Obama first moved into the Oval Office. The U.S. manufacturing sector has expanded for eight straight months, the Business Roundtable's measure of CEO optimism reached its highest level since early 2006, and in March the economy added 162,000 jobs—more than it had during any month in the past three years. "There is more business confidence out there," says Boeing CEO Jim McNerney. "This Administration deserves significant credit."

It is worth stepping back to consider, in cool-headed policy terms, how all of this came to be—and whether the Obama team's approach amounts to a set of successful emergency measures or a new economic philosophy: Obamanomics.

For most of the past two decades, the reigning economic approach in Democratic circles has been Rubinomics, a set of priorities fashioned in the 1990s by Bill Clinton's Treasury Secretary, Robert E. Rubin, the former co-chairman of Goldman Sachs. Broadly, Rubinomics was a three-legged stool consisting of restrained government spending, lower budget deficits, and open trade, which were meant in combination to reassure financial markets, keep capital flowing, and thus put the country on a path to prosperity.

On the surface, Obamanomics couldn't be more different. The Administration racked up record deficits as it pursued a $787 billion fiscal stimulus on top of the $700 billion bailout fund for banks and carmakers. Obama has done close to nothing to expand free trade. And while Clinton pleased the markets with a moderate, probusiness image, Obama has riled Wall Street with occasional bursts of populist rhetoric, such as his slamming of "fat cat bankers" on *60 Minutes* last December.

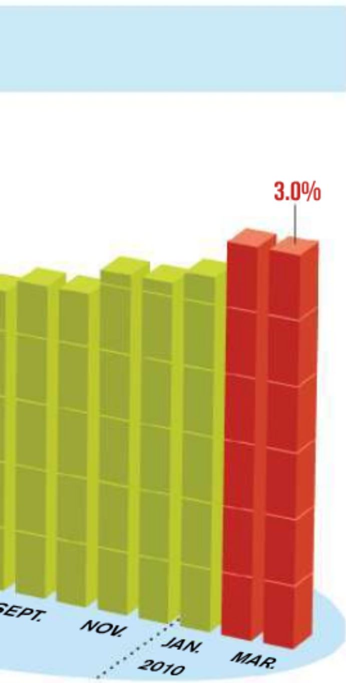
The rallying markets haven't been bothered by these differences, largely because of their context. Martin Baily, who was a chairman of the Council of Economic Advisers during the Clinton Administration, says he suspects Rubin and the rest of the Clinton economic team would have made similar decisions—on bailouts, fiscal stimulus, and deficit spending—had they faced a crisis of similar magnitude. "I think we would have gone the same way," he says. The Obama team, he continues, navigated the financial crisis while never losing sight of the importance of private enterprise and private markets (a point Obama stressed in his Feb. 9 interview with *Bloomberg BusinessWeek*). "A lot of people on the left were urging them to nationalize banks. Instead they injected capital, and now they're pulling capital out. That looks more like Rubinomics than a set of socialist or left-wing economic policies." The Obama economic team looks a lot like Rubin's, too; three of its most prominent members—Treasury Secretary Tim Geithner, National Economic Council Chairman Larry Summers, and White House budget director Peter Orszag—are Rubin protégés.

While the Administration's call for a consumer financial protection agency has aroused opposition from banks, Obama's regulatory reform plan largely leaves the financial industry's structure intact and ignores proposals to break up large financial institutions, unlike the reforms pursued after the Crash of 1929. Amid an uproar over bonuses at government-assisted banks, Obama for the most part chose to respect private employment contracts.

IN SHORT, OBAMA'S INSTINCTS during the crisis were exceedingly Rubin-esque. Even the $787 billion stimulus package, while large by historical standards, didn't reach the scale called for by many liberal economists, including the chairman of his own Council of Economic Advisers, Christina Romer, who initially advocated spending more than $1 trillion. Today, Romer doesn't shy away from comparisons to the last Democratic Administration, but she also makes no grand claims about a new economic philosophy. What unites Rubinomics and Obamanomics, she says, "is the focus on results, the pragmatism of what's right for the economy. We

CHART BY STANFORD KAY

www.journal-plaza.net & www.freedowns.net



each took the policy that was appropriate at the time."

The similarities go deeper. Like Clinton, Obama has tried to reduce income inequality. Clinton's 1993 deficit-reduction plan raised income tax rates for high-income families to 39.6%; Obama plans to return the top rate to the Clinton-era level. He also raised Medicare taxes for individuals earning over $200,000 to finance his health plan. Clinton aided the working poor with the Earned Income Tax Credit; Obama is doing the same with insurance subsidies in his health plan. A national health plan was an aspiration of both Presidents. Baily argues that the Obama approach is "at least in principle closer to Rubinomics than was the Clinton plan. [Obama's team] is trying to use market incentives to raise the quality and lower the cost, and that looks like Rubinomics."

Any comparison must take into account the vastly different circumstances each Administration confronted. Clinton entered office as the end of the Cold War generated a peace dividend, then rode the tech boom—and the tax-revenue-generating stock options that came with the runup in tech stock prices— to a balanced budget. Obama inherited two wars and the scariest financial crisis since the Great Depression. Clinton's deference to the bond market was necessary because long-term interest rates were high—above 7% on 30-year Treasury bonds—when he took office. Interest rates have been the least of Obama's concerns, with yields below 3% when he took office and the Fed effectively keeping short-term rates at zero.

Despite a budget deficit that is projected at $1.5 trillion this year, Obama wants to move the country toward the kind of fiscal balance it enjoyed fleetingly in the Clinton era, though his budget plans falls short of that. He recognizes that the federal debt load is unsupportable. Alan Greenspan—the tacit ally of Clinton and Rubin in the 1990s—warned last month that a recent uptick in yields on 10-year Treasury notes might signal a surge in long-term interest rates driven by investor anxiety over the budget shortfall.

Economic stabilization has not been Obama's handiwork alone. In the months before he took office, President George W. Bush and Treasury Secretary Hank Paulson halted a market free fall with the bank bailout. Obama's stimulus complemented the Federal Reserve's aggressive monetary easing. To build a floor for housing prices, the Fed intervened to support mortgage markets and the White House pledged unlimited financial backing for mortgage giants Fannie Mae and Freddie Mac, and rolled out tax credits for home buyers and mortgage modification programs to stave off foreclosures. It's the entire package that has made the difference.

"When you take it all together, the response was massive, unprecedented, and ultimately successful," says Mark Zandi, chief economist at Moody's Economy.com. Even Obama critics like Phil Swagel, assistant Treasury secretary for economic policy under George W. Bush, acknowledge that White House policies have been successful. "They could have done a better job" by spending more of the stimulus on corporate tax cuts to boost hiring and investment, says Swagel, now an economics professor at Georgetown University's McDonough School of Business. "But their economic policies, including the stimulus, have helped move the economy in the right direction."

While jobs have been slow to return, the country has experienced "an incredible productivity boom" that strengthens the economy for an expansion, says Greenhaus of Miller Tabak. Labor productivity, or worker output per hour, grew at a 6.9% annual pace in the fourth quarter, capping the biggest one-year gain since 2002. Over the long run, productivity growth is what raises living standards. Corporate profits also have been rising, up 8% in the fourth quarter, putting businesses on a sounder financial foundation to invest and hire as customers return.

THE PUBLIC, ALAS, DOES NOT SEE the signs of life that economists do, as the downbeat views in the Bloomberg poll demonstrate. And as long as job security remains a concern, it's easy to understand why psychology may trump data. Among those who own stocks, bonds, or mutual funds, only 3 out of 10 say the value of their portfolio has risen since a year ago, according to the poll—a near-impossibility given the size and breadth of the market gains.

The early stages of an economic rebound do not bring political safe haven for Presidents. (Just ask George H.W. Bush, who won a war against Iraq only to lose reelection a year after the 1990-91 recession ended.) Obama, however, may now have reached a pivot point with the economy finally beginning to add jobs. "He can make great strides in short order," says Steven Jarding, a former Democratic campaign strategist who is now a lecturer at Harvard's Kennedy School of Government. "Any indicator he can build on is a good thing. He'll be able to focus all his energy and attention to say, 'Here's what happened this year in the economy.'"

With seven months to go before midterm elections, and more than two years before Obama reaches his own reelection day, there's still time for the President's policies to swing to his political advantage. Again, follow the money: Consumer spending has been rising for five straight months. That may not last, but it suggests Obama is already on the right track with voters' wallets. If the Clinton Administration is a trustworthy precedent—and job growth continues—their hearts and minds could follow. |BW|

HAD RUBIN AND HIS TEAM BEEN FACED WITH A CRISIS OF THIS MAGNITUDE, SAYS ONE CLINTONITE, "I THINK WE WOULD HAVE GONE THE SAME WAY"

www.journal-plaza.net & www.freedowns.net



www.journal-plaza.net & www.freedowns.net

THE CASE FOR MORE STIMULUS

The worst thing about the uptick in hiring? It could undermine a still-needed second wave of federal spending

By Peter Coy

Illustration by Julie Teninbaum

PRESIDENT BARACK OBAMA WOULD HAVE BEEN forgiven a few high-fives on Apr. 2 after the Labor Dept. announced the U.S. economy generated 162,000 jobs in March. Instead he was cautious. At a speech in Charlotte, N.C., Obama did say, "We are beginning to turn the corner," then added that the job numbers "leave us with a lot more work to do." Chief economic adviser Christina Romer was even more circumspect, issuing a statement that said, "the American labor market remains severely distressed." And over the weekend, National Economic Council Director Larry Summers drove the point home on CNN, saying, "We've got a long way to go."

It's not modesty, false or otherwise, that's making the Obama Administration so reticent. It's reality. With 10 million Americans out of work, Obama's team knows that the employment growth in March (a quarter of which was driven by the hiring of federal Census workers) actually makes its mission over the next year or two more difficult.

Here's why: The positive jobs report reduces the political urgency for fixing the U.S. economy. If voters and lawmakers decide the economy is healing on its own, it becomes harder to justify more infrastructure spending, aid to stressed states, extended unemployment insurance, and the like. Even before the report, the Administration had begun to focus on smallish fixes like the $14 billion HIRE Act, which encourages hiring of the unemployed, and new measures to discourage foreclosures. "Stimulus has become a dirty word in Washington," says Augustine Faucher, macroeconomics director of Moody's Economy.com.

That's understandable, but it could be a problem if the economy begins to sputter. The nonpartisan Congressional Budget Office estimates that as of the end of 2009, last year's $787 billion stimulus package had created 1.4 million to 3 million full-time-equivalent jobs that wouldn't have existed otherwise. In other words, the recession would have been even worse without it. Now that stimulus is going away; by September, 70% of the funds will have been spent, the government estimates.

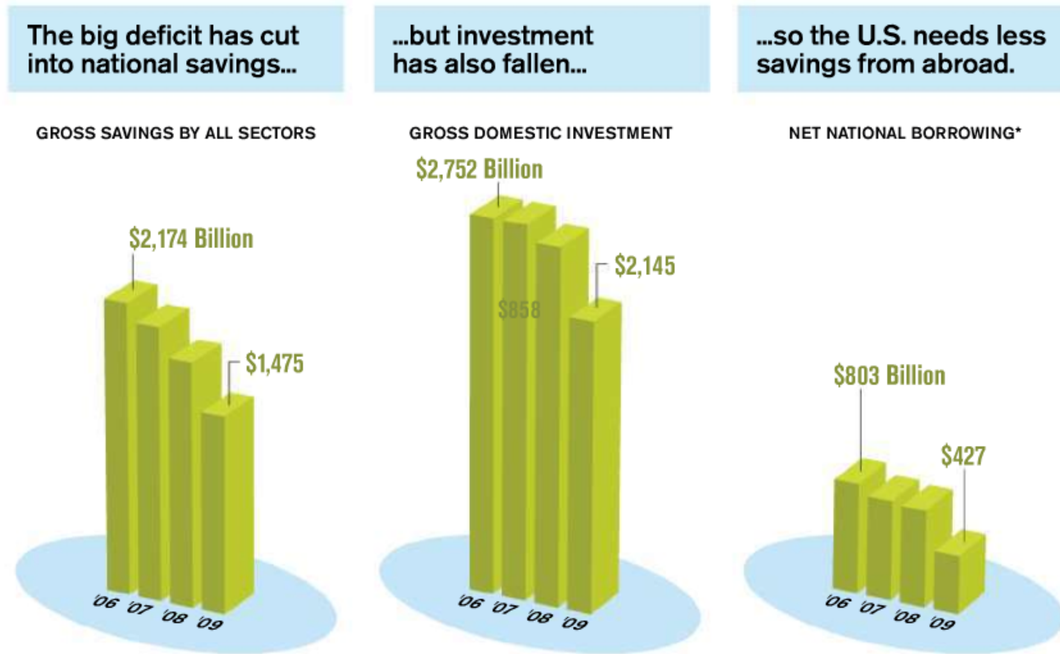
While most forecasters see gross domestic product growth of 3% this year and next under current policy, there remains a risk that without more support, the U.S. economy will sink into Japanese-style torpor. David Rosenberg, chief economist of investment manager Gluskin Sheff + Associates in Toronto, predicts U.S. growth will slow from 3% this year to 2% in 2011 and just 1% in 2012. He sees a 35% chance of a relapse into recession at some point. Says Mizuho Securities USA Chief Economist Steven Ricchiuto: "Since the [March] payroll data came out the growth

(OBAMA) KENT NISHIMURA/GETTY IMAGES

www.journal-plaza.net & www.freedowns.net

WHY WE NEED TO KEEP PRIMING THE PUMP

The economy is still weak, and the risk of a stalled recovery remains very real



Data: Federal Reserve

*Investment minus savings, adjusted for capital transactions and statistical discrepancy

optimists are taking a victory lap. But the risk of a double dip remains significant."

All this puts the Obama Administration in a tricky spot. The President wants to continue priming the pump, at more modest levels. The 2011 budget requests $266 billion to fight the slump—$166 billion for extended unemployment insurance, more aid to states and localities, etc., and the rest for targeted jobs programs. "We are very much of the mindset that more needs to be done," says Jared Bernstein, Vice-President Joe Biden's chief economic adviser.

Yet Obama also wants to reassure voters and the markets that he's serious about deficit reduction. That's the purpose of the new deficit commission and the scattered tax hikes in the 2011 budget. There's a risk of coming down in the muddy middle and achieving neither goal. The conservative *Orange County Register* editorialized in February that in conveying his dual message, Obama sounds like the young St. Augustine, who prayed: "Give me chastity and continence, but not yet."

AS A STUDENT OF THE GREAT DEPRESSION, Christina Romer studied what happened in 1937-38, when ill-conceived fiscal and monetary contraction killed a fairly strong recovery, sending the economy back into a slump that didn't end until World War II. As the current recovery begins, Romer says she continues to worry whether private demand will come back strongly enough as federal spending falls. "We are on track for normal trend growth, but we need much more than that. When you're down so much in jobs, you need a period of very rapid job creation," she said in an Apr. 6 interview.

You don't have to go back to the 1930s to find a nightmare scenario for the American economy. In 1997, Japan was gradually beginning to recover from a downturn that began with the popping of a huge real estate bubble in 1990. Then deficit hawks pushed through an increase in consumption taxes equal to 2% of the nation's GDP. Output, which had been growing, abruptly shrank. Unemployment began to rise. The downturn caused the Japanese people to lose confidence in their government's ability to restore growth.

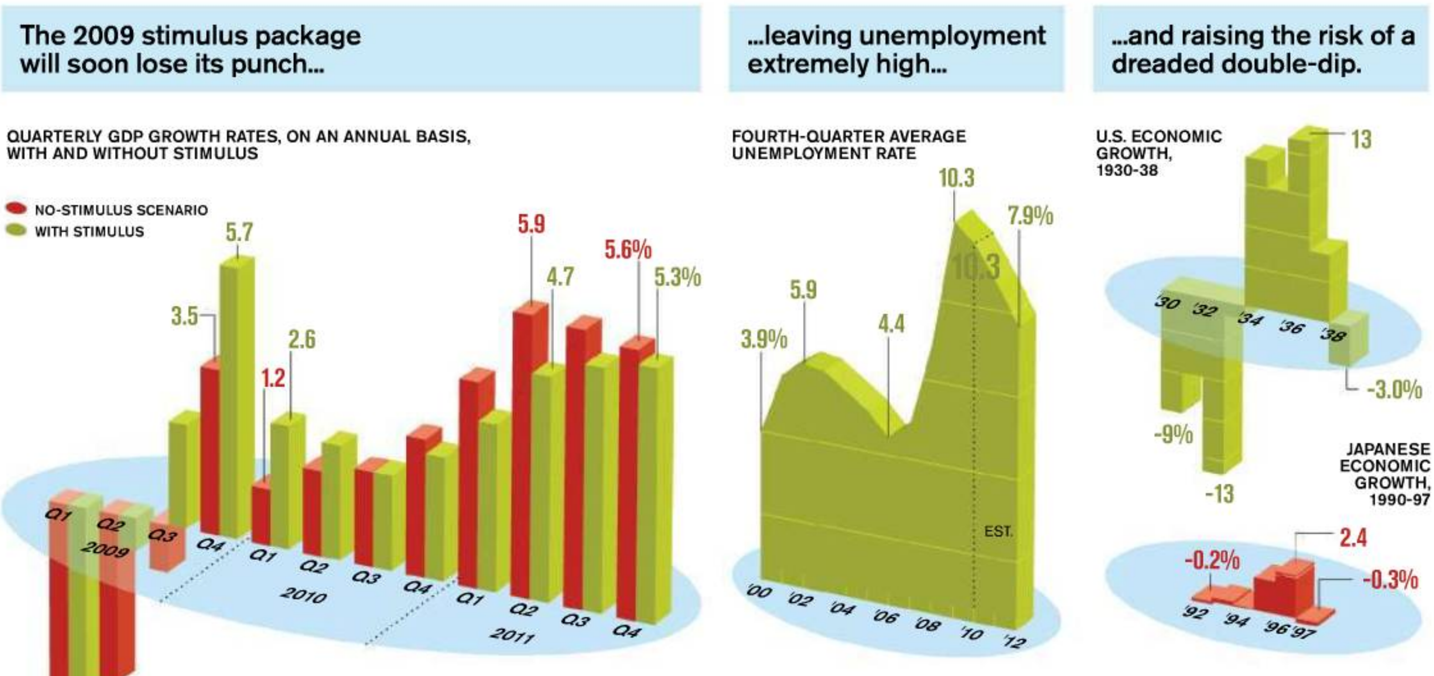
More than two decades later, the funk in Japan still lingers. "After 1997 it was like a funeral in Japan," says Richard C. Koo, chief economist of Nomura Research Institute. "Once people start feeling there is no cure, you're in trouble."

Japan suffered for so long because it failed to find a new source of economic growth. Twenty-eight months after the U.S. recession began, in December 2007, and most of a year after it probably ended, the U.S. may be in a similar fix. No single engine has emerged to pull along the $14 trillion economy—not consumer spending, not business investment, not exports. Clean-energy apostles argue that the transition to a green economy could become the driver, but the Senate seems unwilling to impose a price on carbon emissions, the necessary trigger for massive private investments in alternative energy.

Despite the welcome return to growth and the sunny economic reports of recent days (page 28), the outlook remains uncertain. The March jobs report contained the worrisome news that average hourly earnings fell by 0.1% from February, a rare decline, leaving them up just 1.8% from a year earlier. Workers have scant bargaining power. The housing bust left them feeling poor, while near-10% unemployment has them fearing for their jobs. Bankruptcy filings were up 23% in March, to nearly 150,000, from a year earlier. The Conference Board's measure of consumer confidence is as low as it was in the dark days of September 2008, after the collapse of Lehman Brothers. Yes, personal consumption has been rising, but it has been propped up by a drop in the personal savings rate (from 6.4% to 3.1% over the 10 months through

CHART BY STANFORD KAY

www.journal-plaza.net & www.freedowns.net



Data: Moody's Economy.com estimates, Bureau of Labor Statistics, Council of Economic Advisers forecasts, Bureau of Economic Analysis, Bloomberg

February), and the savings rate can't keep falling forever. Consumers want to be more thrifty, not less, so "households will not be able to continue to spend at this rate in the coming quarters," Capital Economics' U.S. economist Paul Dales wrote on Mar. 29.

You would think businesses could lead the economy because they are flush with cash to invest and hire. (Nonfinancial U.S. corporations held $1.8 trillion in liquid assets at the end of 2009, according to investment firm AllianceBernstein.) They aren't doing so because they still have excess capacity and they don't see enough demand from consumers, who remain cautious because they fear for their jobs. A mini-boom in capital spending late last year is already fading. For the medium term, "we're basically in a structural slump," Edmund Phelps, the Nobel Prize-winning economist at Columbia University, told Bloomberg Television on Apr. 2.

IF THE NATION TURNS TOO QUICKLY TO DEFICIT REDUCTION, THE ECONOMY COULD GET STUCK IN A RUT THAT WOULD BE EXPENSIVE TO ESCAPE

Obama is pinning some of his hopes for growth on trade, vowing that the country will double exports in five years. That requires trading partners to play along by growing robustly and buying more American products. Instead, China and India have raised rates since last year to stave off inflation. Southern European nations are cutting government spending and raising taxes. Many trading partners, from Britain to Germany, intend to pump up their economies via exports.

What's left, then, to accelerate growth? Government. The Keynesian prescription for a prolonged, economywide shortfall of demand is to spend money to get the economy functioning. The idea is that priming the pump now will yield lots more GDP growth (and tax revenue) in the future. Stimulus can be a long-term money-saver.

John Maynard Keynes may stand right next to Karl Marx in the eyes of Tea Party activists, but there's a long history of Keynesian stimulus by both Democratic and Republican Administrations. In 2008, President George W. Bush pushed for and achieved a $152 billion stimulus package that he described as a "booster shot" for the economy.

True, Obama has less spending leeway than Bush had. According to the White House's Office of Management & Budget, gross federal debt will reach 94% of GDP this fiscal year, up from 69% in 2008. Research by economists Carmen I. Reinhart of the University of Maryland and Kenneth Rogoff of Harvard University shows that growth slows in advanced economies when their ratio of gross debt to GDP exceeds 90%.

Citing numbers like that, Republican economists say it would be a mistake to spend any more now on juicing the economy. Douglas J. Holtz-Eakin, an economist who advised Republican Senator John McCain's Presidential campaign in 2008, predicts that "we'll begin to see fairly steady job creation" by summer. "I think it's terrible advice to a Congress to put off getting its fiscal house in order."

Holtz-Eakin is right that the federal debt will be a huge problem over the next decade and beyond. But trimming back on recession-fighting remedies won't solve it. The deficit is growing primarily because of ballooning expenses for entitlement programs such as Social Security and Medicare, as well as national defense. Obama's budget office estimates that even at the peak of stimulus spending this year, more than 70% of

www.journal-plaza.net & www.freedowns.net

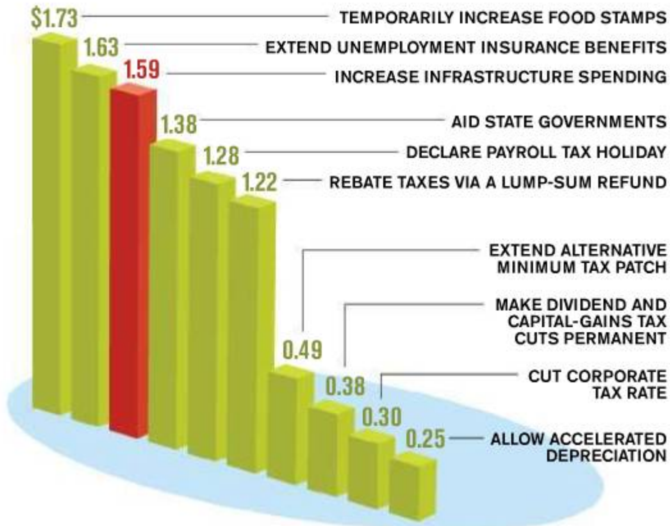
STIMULUS THAT MAKES A DIFFERENCE

In a weak economy, tax cuts, though popular, raise the deficit without boosting growth

Direct government spending, including on infrastructure, delivers more oomph than tax cuts...

FISCAL STIMULUS BANG FOR THE BUCK

ONE-YEAR CHANGE IN GDP PER DOLLAR OF SPENDING OR REVENUE REDUCTION



Data: Moody's Economy.com

...and construction workers need jobs.

UNEMPLOYMENT RATES, FEB. 2010



Data: Bureau of Labor Statistics

the federal deficit is accounted for by noncyclical factors—i.e., fundamental imbalances.

The good news is that the deficit is more of a long-term threat (albeit an enormous one) than a present danger. The yield on 10-year Treasury bonds remains below 4%, vs. over 8% in 1990. Inflation, likewise, is a remote concern: Prices for personal consumption expenditures rose just 1.8% over the past year through February.

And there's reason to be encouraged about America's debt-paying capacity over the short term: The increase in the national debt has been slowing (charts, page 34). Since 2006, increased federal borrowing has been partially offset by more savings by households and businesses (although households have been less frugal recently). As a result, overall national savings have fallen less than the big federal deficits might lead one to expect. That's a good thing. Another factor that's taking the pressure off U.S. financing needs is that national investment has declined in the economic downturn. When there's less investment, there's less need for savings to finance it. The result is that the U.S. is importing less savings from abroad. Net national borrowing fell by nearly half between 2006 and 2009, Federal Reserve figures show.

CONTRARY TO POPULAR PERCEPTIONS, THEN, OBAMA may have some fiscal elbow room for measures to boost the economy over the next few years. It will need to do so, argues Nomura's Koo. "If the government refuses to borrow money to compensate for the private-sector pullback, this economy will start contracting in a deflationary spiral" (page 14).

The Obama Administration might have an easier time selling stimulus if it could convince Americans that the money is doing what it's supposed to. That hasn't always been the case. Tax cuts, which constituted most of the Bush stimulus and one-third of the 2009 Obama plan, are especially ineffective in generating growth when there's lots of slack in the economy, according to analysis by macroeconomic forecasters such as IHS Global Insight, Macroeconomic Advisers, and Moody's Economy.com. Businesses won't hire an extra employee, even with a tax incentive, if there's no work to be done. Most consumers will save rather than spend a tax rebate if they can afford to do so and are intent on repairing their household balance sheets. For instance, Moody's Economy.com estimates that cutting corporate income taxes raises GDP for one year by only 30¢ for each $1 of tax cuts.

Infrastructure spending may be the most underused tool to fight the slump. It offers lots of bang for the buck (a $1.58 rise in first-year GDP for every dollar spent, Moody's says). It benefits a sector—construction, mining, and energy—whose March unemployment rate was 24.6%. And it builds things that society needs anyway, like roads, levees, and sewer systems. It works slowly, but that's O.K. because the economy will have lots of spare capacity for years. Rosenberg, the bearish Gluskin Sheff economist, dislikes most stimulus measures but does support more infrastructure spending, in particular "totally revamping the energy grid." Says Rosenberg: "That's something you could really rally the population around." (When the Senate turns to energy legislation in the coming weeks, stimulus will be lurking in the pages of the bill.) Princeton University economist Alan Blinder imagines a million-person Works Project Administration that would clean parks, repair facilities, and so on.

Right now any productive investment would help. Labor and capital are sitting idle because the private sector remains depressed. If Obama intervenes in a way that sustains the recovery, then it will surely be time for high-fives. | BW |

–With Roger Runningen

CHART BY STANFORD KAY

www.journal-plaza.net & www.freedowns.net



THIS SOFA DESIGN COORDINATES WITH EVERYTHING. EVEN NATURE.







The true comfort of this furniture comes from knowing what's inside it: a new kind of foam created in part from renewable resources. Manufacturers of foam for the furniture and bedding industries wanted to use less petroleum-based ingredients in their products and asked Cargill for help. Using soybean oil and chemistry, we developed BiOH™ polyols, a new foam-making ingredient. The resulting product performs like traditional foam, yet consumes less petroleum. Several national brands are now using it in their furniture—making homes more inviting for both people and nature. This is how Cargill works with customers.

collaborate > create > succeed™

www.cargill.com/creates

©2009 Cargill, Incorporated

food, agriculture & risk management solutions

Cargill®

www.journal-plaza.net & www.freedowns.net

THE END OF WALL STREET

The Street isn't dead—but a certain laissez-faire idea of it is. So argues Roger Lowenstein in his new book, *The End of Wall Street*, excerpted here

"Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity, myself included, are in a state of shocked disbelief."

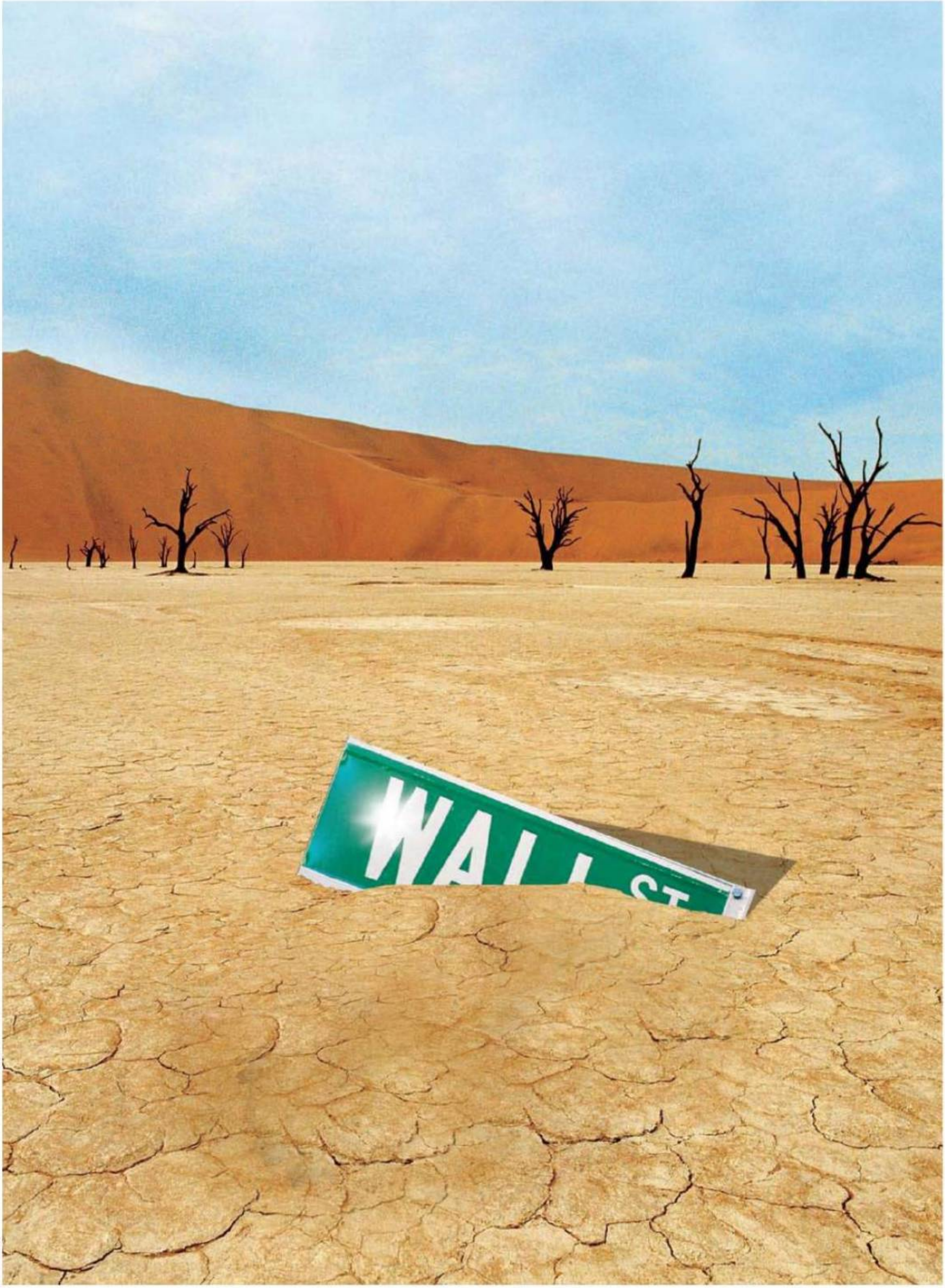
–Alan Greenspan, testimony before the House Committee on Oversight & Government Reform, Oct. 23, 2008

The crash of 2008 put to rest the intellectual model that inspired, and to a large degree facilitated, the bubble. It spelled the end of the immodest faith in Wall Street's ability to forecast. No better testimony exists than the extraordinary recanting of former Federal Reserve Board Chairman Alan Greenspan, the public official most associated with the thesis that markets are ever to be trusted.

In October 2008, 10 days after the first round of Troubled Asset Relief Program (TARP) investments, Greenspan appeared in the House of Representatives in effect to repeal the credo by which he had managed the nation's economy for 17 years: "In recent decades a vast risk management and pricing system has evolved, combining the best insights of mathematicians and finance experts supported by major advances in computer and communications technology. A Nobel prize was awarded for the discovery of the pricing model

PHOTO ILLUSTRATION BY ARTHUR HOCHSTEIN, LYLE OWERKO/GETTY IMAGES (DESERT SCENE); JEFF SPIELMAN/GETTY IMAGES (SIGN).

www.journal-plaza.net & www.freedowns.net



www.journal-plaza.net & www.freedowns.net



FORMER FED CHAIRMAN ALAN GREENSPAN CONCEDED THE "INTELLECTUAL EDIFICE" OF THE DERIVATIVES MARKETS HAD COLLAPSED. HE BLAMED IT ON BAD DATA.

ANDREW HARRER/BLOOMBERG

that underpins much of the advance in derivative markets.... The whole intellectual edifice, however, collapsed in the summer of last year because the data inputted into the risk management models generally covered only the past two decades, a period of euphoria."

This remarkable proclamation, close to a confession, was the intellectual counterpart to the red ink flowing on Wall Street. Just as Fannie Mae, Freddie Mac, and Merrill Lynch had undone the labors of a generation—had lost, that is, all the profits and more that they had earned during the previous decade—Greenspan undermined its ideological footing. And even if he later partly retracted his apologia (in the palliative that it wasn't the models per se that failed but the humans who applied them), he was understood to say that the new finance had failed. The boom had not just ended; it had been unmasked.

Why did it end so badly? Greenspan's faith in the new finance was itself a culprit. The late economist Hyman P. Minsky observed that "success breeds a disregard of the possibility of failure." Greenspan's persistent efforts to rescue the system lulled the country into believing that serious failure was behind it. His successor, Ben Bernanke, was too quick to believe that Greenspan had succeeded—that central bankers had truly muted the economic cycle. Each put inordinate faith in the market and disregarded its oft-shown potential for speculative excess. Excessive optimism naturally led to excessive risk.

The Fed greatly abetted speculation in mortgages by keeping interest rates too low. Meanwhile, the willingness of government to abide teaser mortgages, "liar loans," and home mortgages with zero down payments, amounted to a staggering case of regulatory neglect.

The government's backstopping of Fannie and Freddie, along with the federal agenda of promoting homeownership, was yet another cause of the bust. Yet for all of Washington's miscues, the direct agents of the bubble were private ones. It was the market that financed unsound mortgages and collateralized debt obligations (CDOs) that spread their contagion globally; the Fed permitted, but the market acted. The banks that failed were private; the investors who financed them were doing the glorious work of Adam Smith.

Rampant speculation in mortgages was surely the primary cause of the bubble, which was greatly inflated by leverage in the banking system, in particular on Wall Street. High leverage and risk taking in general was fueled by the Street's indulgent compensation practices.

The system of securitizing mortgages lay at the heart of Wall Street's unholy alliance with Main Street, and several links in the chain made the process especially risky. Mortgage issuers, the parties most able to scrutinize borrowers, had no continuing stake in the outcome; the ultimate investors, dispersed around the globe, were too remote to be of any use in evaluating loans. These investors (as well as various government agencies) relied on the credit agencies to serve as a watchdog, and the agencies, being cozy with Wall Street, were abysmally lax.

Wall Street's penchant for complexity was itself a risk. Abstruse securities were more difficult to value, and multitiered pyramids of debts were far more susceptible to collapse. Individual malfunctions were indicative of a larger failure: The market system came undone. What truly failed was the postindustrial model of capitalism. The market's tools for measuring risk simply did not work. The most sophisticated minds on Wall Street proved no wiser than country loan officers. All in, the big Wall Street banks were stuck with an estimated 30% of subprime losses....

Counter to the view of its apostles, the market system of the late 20th and early 21st centuries did not evolve in a state of nature. It evolved with its own peculiar prejudices and rites. The institution of government was nearly absent. In its place had arisen a system of market-driven models, steeped in the mathematics of the new finance.

The rating agency models were typical, and they were blessed by the Securities & Exchange Commission. The new finance was flawed because its conception of risk was flawed. The banks modeled future default rates as though history could provide the odds with scientific certainty—as precisely as the odds in dice or cards.

But markets are different from games of chance. The cards in history's deck keep changing. Prior to 2007 and '08, the odds of a nationwide mortgage collapse would have been seen as very low, because during the previous 70 years it had never happened.

What the bust proved, or reaffirmed, was that Wall Street

www.journal-plaza.net & www.freedowns.net

is (at unpredictable moments) irregular; it is subject to uncertainty. Greenspan faulted the modelers for inputting the wrong slice of history. But the future being uncertain, there is no perfect slice, or none so reliable as to warrant the suave assurance of banks that leveraged 30 to 1.

In particular, the notion that derivatives (in the hands of American International Group and such) eradicated risk, or attained a kind of ideal in apportioning risk to appropriate parties, was sorrowfully exposed. When mortgage securities were introduced, they were applauded because they enabled lenders to issue loans without retaining risk. And this they did. They also created new vulnerabilities. The ability of Countrywide Savings & Loan and Washington Mutual to parcel out loans to Wall Street encouraged them to issue more and riskier loans than had no securitization channel existed. The perception of decreased risk to the individual firm thus increased risk for society at large.

Then-Treasury Secretary Henry M. "Hank" Paulson gave voice (on Sept. 15, 2008, the day Lehman Brothers failed) to the need for reform, and President Barack Obama, as well as Congress, avidly pursued it. In general, there was greater agreement that reform was necessary than there was over what it should entail. Legislative attention focused on four areas: protecting consumers of financial products such as mortgages and credit cards; regulating complex instruments such as derivatives; obviating the need for future government bailouts, either by keeping banks from becoming too big to fail or ensuring that big banks did not assume too much risk; and limiting Wall Street bonuses.

The public embraced only the last of these. Early in 2009, after revelations of continued outsize bonus payments at AIG and Merrill Lynch, an uproar ensued. Astonishingly, Merrill had paid million-dollar bonuses to approximately 700 employees in 2008, a year in which the firm lost $27 billion and in which both it and its acquirer were rescued with federal TARP monies. And Merrill was far from alone. Goldman Sachs' bonus machine barely paused for breath.

Popular outrage was manifest; briefly, a vigilante spirit obtained. A bus tour organized by the Connecticut Working Families Party carried tourists through local suburbs to see the homes of bonus recipients, as if in hopes of dragging the bonus takers to the guillotine.

A few of those judged complicit were actually sacked. John A. Thain, the Merrill chief, was denied in his quest for a $30 million bonus; his mere asking sealed his end. Kenneth D. Lewis, the Bank of America CEO with whom Thain had previously hit it off, fired him. When it emerged later that the bonuses paid by Merrill had been approved by Bank of America, Lewis resigned as well.

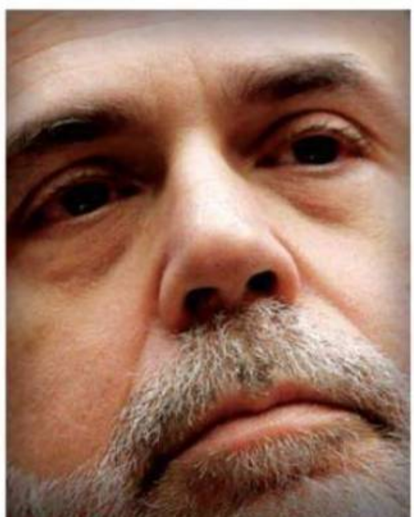
The problem of executive pay did not admit to an easy fix. Well into the crisis period, when banks such as Citigroup were operating on federal investment and when Citi's stock was in single digits, Vikram Pandit, the CEO, was observed with a lunch guest at Le Bernardin, one of the top-rated restaurants in New York. Pandit looked discerningly at the wine list, saw nothing by the glass that appealed, and ordered a $350 bottle so that, as he explained, he could savor "a glass of wine worth drinking." Pandit drank just one glass; his friend had none.

Bankers vigorously sought to defend their pay, and their perks. Setting wages is a function of labor markets; the best reform would have aimed at making the market work better. (For instance, forcing companies to seek shareholder approval of their executive pay arrangements would have restored proper control over wages and countered the executives' sense of entitlement.)

The government chose instead to supervise compensation, in various but limited ways. Congress banned cash bonuses for TARP recipients, and a "pay czar," appointed by Treasury Secretary Timothy F. Geithner, restricted executive salaries at government-controlled companies such as General Motors and Citi....

The issue of "too big to fail," which Bernanke had called "a top priority" for reform, hung over Washington like a dark cloud. The crisis had bequeathed precisely the moral hazard that Paulson had feared. Post-crash, markets presumed that the government would, if necessary, bail out important banks.

Being among the circle of the protected was considered such a boon that both the Administration and Rep-



KEVIN LAMARQUE/REUTERS/CORBIS

THE ISSUE OF "TOO BIG TO FAIL," WHICH BEN BERNANKE HAD CALLED "A TOP PRIORITY," HUNG OVER THE NATION'S CAPITAL LIKE A DARK CLOUD.

www.journal-plaza.net & www.freedowns.net



JOSHUA ROBERTS/BLOOMBERG

KEN LEWIS SACKED THAIN OVER BONUSES PAID AT MERRILL. LEWIS HIMSELF LATER RESIGNED WHEN BANK OF AMERICA'S ROLE IN THE PAYOUTS ERUPTED INTO CONTROVERSY.

resentative Barney Frank (D-Mass.), who managed the bill in the House, initially proposed keeping the list of "too big to fail" institutions secret. Experts consulted by Congress sensibly advised an opposite tack—that the government discourage banks from becoming (or being) too big by making it undesirable.

They proposed that stricter capital requirements and hefty insurance premiums be imposed as a price for bigness. Greenspan reckoned that regardless of official policy, the market would conclude that every big bank enjoyed a federal safety net. Therefore, the surest way to prevent moral hazard was to break up Big Banking à la Standard Oil. But pending final passage of the legislation, Wall Street institutions emerged from the crisis more protected than ever....

The Fed also elevated the role of regulation. At the Greenspan Fed, only monetary policy mattered. After the crash, the agency returned to the job of assessing bank loans and balance sheets, and with a more skeptical eye toward risk models. Daniel K. Tarullo, the first Fed governor appointed by Obama, tartly informed a Senate panel in October 2009 that "things [for banks] are going to change. That means business models. That means the way of assessing risk. That means how you run your institution."

The central bank emerged from the crash sorely humbled. Bernanke conceded publicly that the crisis had caught him off guard. The Fed has a huge stake in ensuring that it is not embarrassed by a bubble again. Presumably, after the economy does recover, the Fed is unlikely to flirt with ultralow interest rates as it did in the '00s....

Finance was reborn when the panic subsided, but in many respects it was a changed industry—more sheltered, more regulated, more concentrated, and less competitive. The scrappier, smaller firms that previously challenged Goldman Sachs were licking their wounds or had disappeared altogether. Goldman's only true rival was JPMorgan Chase, now the king of Wall Street. (Goldman and Morgan were among the first to repay their TARP monies.)

Commercial banking was exceptionally concentrated, with the four biggest banks claiming almost 40% of deposits and two-thirds of credit cards. Effectively, the Wild West model was supplanted by a more European-seeming arrangement, in which a few elite players thrived within the government's embrace. Goldman still took big risks, but now with the backing (if needed) of the taxpayers. The banks were like Fannie and Freddie before the crash: for-profit institutions with a presumptive lifeline to the Treasury.

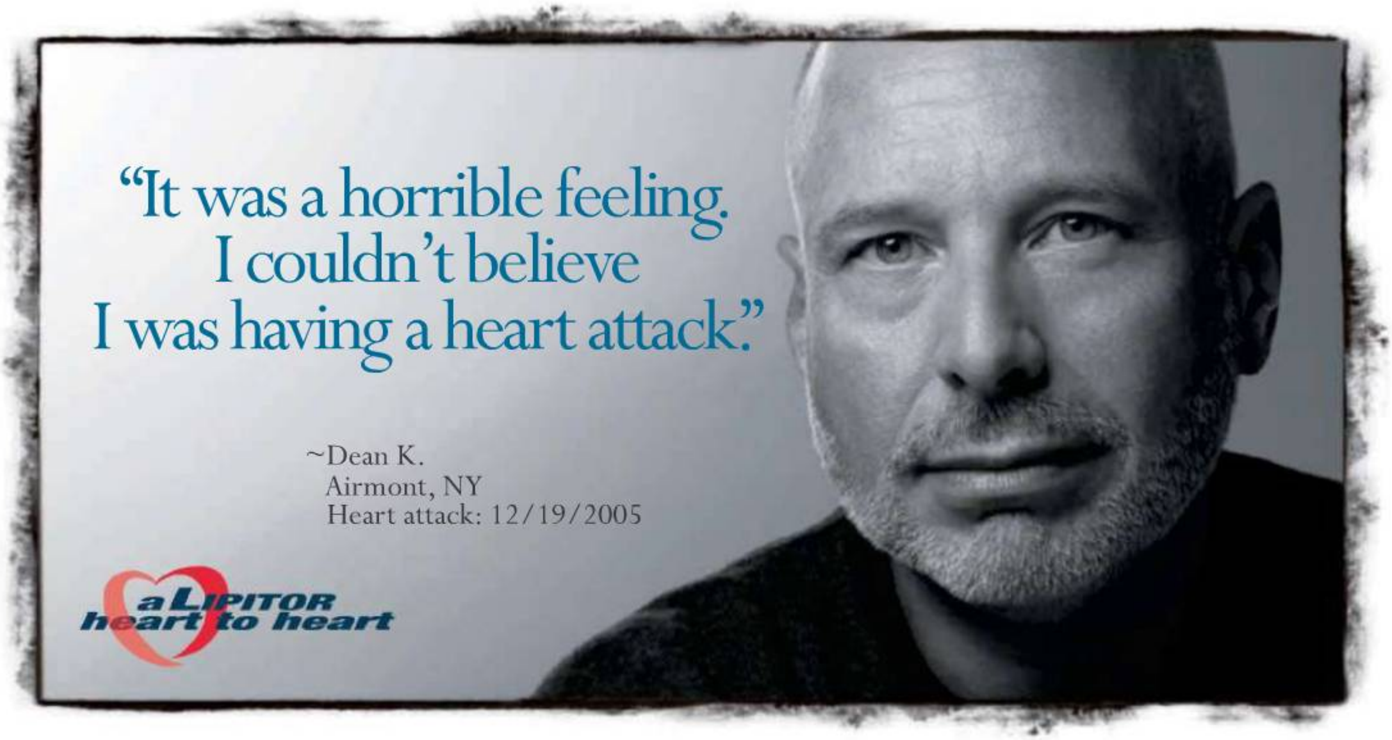
Post-crash, consumer habits shifted abruptly. Households had heavy debts to work through, a process expected to take years. Americans relied more on income, less on Wall Street financings. For regulatory and also societal reasons (such as high unemployment), expectations downshifted. Wall Street's impression onAmerican culture seemed to have eroded, its glossy optimism worn to a thrifty nub.

Higher saving was itself a rejection of the Wall Street credo; it signaled Americans' unease about the future. For almost their entire adulthood, baby boomers had assumed that even small accounts (or their homes) would build into appreciable savings and provide for retirements. Now they were mere squirrels, storing acorns for winter.

The drop in spending revived an essential puzzle, prevalent in the Depression years and also in Japan in the '90s: How to create sufficient demand for goods and labor? As compared with Wall Street's golden age, government seemed destined to supply more of the answer, bankers less. After all, the recovery had been purchased with massive public-sector spending and loans, and the federal pipeline showed no sign of shutting down. The Administration was anointing preferred industries (energy, the environment) for investment, a throwback to the fad for industrial planning of the '70s.

Unemployment was higher, the government's role as a social guarantor larger. Obama, though only with a bruising fight, muscled through a new health-care law, a goal pursued by liberals since the New Deal. Indeed, John Maynard Keynes, the 20th century British economist and statesman famous for his skepticism of the market, was reinstated to his previous perch in the canon. A trio of timely books argued that the way out of the recession was to heed Lord Keynes, who emphasized the uncertainty of economic life, and prescribed government fine-tuning as a permanent feature of industrial societies, necessary to balance the ups and downs of the economic cycle. The Obama stimulus itself was pure Keynesian economics, a standard tool of

www.journal-plaza.net & www.freedowns.net



**"I should've done more to take care of myself.
Now I'm exercising, watching my diet, and I trust my heart to Lipitor."
Talk to your doctor about your risk and about Lipitor.**

- **Along with diet, Lipitor is FDA-approved to reduce the risk of heart attack and stroke in patients with several common risk factors, including family history of early heart disease, high blood pressure, low good cholesterol, age and smoking.**
- **Lipitor has been extensively studied with over 17 years of research. And Lipitor is backed by 400 ongoing or completed clinical studies.**

IMPORTANT SAFETY INFORMATION:
LIPITOR is not for everyone. It is not for those with liver problems. And it is not for women who are nursing, pregnant or may become pregnant.

If you take LIPITOR, tell your doctor if you feel any new muscle pain or weakness. This could be a sign of rare but serious muscle side effects. Tell your doctor about all medications you take. This may help avoid serious drug interactions. Your doctor should do blood tests to check your liver function before and during treatment and may adjust your dose.

Common side effects are diarrhea, upset stomach, muscle and joint pain, and changes in some blood tests.

INDICATION:
LIPITOR is a prescription medicine that is used along with a low-fat diet. It lowers the LDL ("bad" cholesterol) and triglycerides in your blood. It can raise your HDL ("good" cholesterol) as well. LIPITOR can lower the risk for heart attack, stroke, certain types of heart surgery, and chest pain in patients who have heart disease or risk factors for heart disease such as age, smoking, high blood pressure, low HDL, or family history of early heart disease.

LIPITOR can lower the risk for heart attack or stroke in patients with diabetes and risk factors such as diabetic eye or kidney problems, smoking, or high blood pressure.

Please see additional important information on next page.

LIPITOR
atorvastatin calcium
tablets

Have a heart to heart with your doctor about your risk. And about Lipitor.
Call 1-888-LIPITOR (1-888-547-4867) or visit www.lipitor.com/dean

*You are encouraged to report negative side effects of prescription drugs to the FDA.
Visit www.fda.gov/medwatch or call 1-800-FDA-1088.*

© 2010 Pfizer Inc. All rights reserved. LPP03587E

www.journal-plaza.net & www.freedowns.net

IMPORTANT FACTS

LIPITOR atorvastatin calcium tablets (LIP-ih-tore)

LOWERING YOUR HIGH CHOLESTEROL

High cholesterol is more than just a number, it's a risk factor that should not be ignored. If your doctor said you have high cholesterol, you may be at an increased risk for heart attack and stroke. But the good news is, you can take steps to lower your cholesterol.

With the help of your doctor and a cholesterol-lowering medicine like LIPITOR, along with diet and exercise, you could be on your way to lowering your cholesterol.

Ready to start eating right and exercising more? Talk to your doctor and visit the American Heart Association at www.americanheart.org.

WHO IS LIPITOR FOR?

Who can take LIPITOR:

- People who cannot lower their cholesterol enough with diet and exercise
- Adults and children over 10

Who should NOT take LIPITOR:

- Women who are pregnant, may be pregnant, or may become pregnant. LIPITOR may harm your unborn baby. If you become pregnant, stop LIPITOR and call your doctor right away.
- Women who are breast-feeding. LIPITOR can pass into your breast milk and may harm your baby.
- People with liver problems
- People allergic to anything in LIPITOR

BEFORE YOU START LIPITOR

Tell your doctor:

- About all medications you take, including prescriptions, over-the-counter medications, vitamins, and herbal supplements
- If you have muscle aches or weakness
- If you drink more than 2 alcoholic drinks a day
- If you have diabetes or kidney problems
- If you have a thyroid problem

ABOUT LIPITOR

LIPITOR is a prescription medicine. Along with diet and exercise, it lowers "bad" cholesterol in your blood. It can also raise "good" cholesterol (HDL-C).

LIPITOR can lower the risk of heart attack, stroke, certain types of heart surgery, and chest pain in patients who have heart disease or risk factors for heart disease such as:

- age, smoking, high blood pressure, low HDL-C, family history of early heart disease

LIPITOR can lower the risk of heart attack or stroke in patients with diabetes and risk factors such as diabetic eye or kidney problems, smoking, or high blood pressure.

POSSIBLE SIDE EFFECTS OF LIPITOR

Serious side effects in a small number of people:

- **Muscle problems** that can lead to kidney problems, including kidney failure. Your chance for muscle problems is higher if you take certain other medicines with LIPITOR.
- **Liver problems**. Your doctor may do blood tests to check your liver before you start LIPITOR and while you are taking it.

Call your doctor right away if you have:

- Unexplained muscle weakness or pain, especially if you have a fever or feel very tired
- Allergic reactions including swelling of the face, lips, tongue, and/or throat that may cause difficulty in breathing or swallowing which may require treatment right away
- Nausea, vomiting, or stomach pain
- Brown or dark-colored urine
- Feeling more tired than usual
- Your skin and the whites of your eyes turn yellow
- Allergic skin reactions

Common side effects of LIPITOR are:

- Diarrhea
- Upset stomach
- Muscle and joint pain
- Changes in some blood tests

HOW TO TAKE LIPITOR

Do:

- Take LIPITOR as prescribed by your doctor.
- Try to eat heart-healthy foods while you take LIPITOR.
- Take LIPITOR at any time of day, with or without food.
- If you miss a dose, take it as soon as you remember. But if it has been more than 12 hours since your missed dose, wait. Take the next dose at your regular time.

Don't:

- Do not change or stop your dose before talking to your doctor.
- Do not start new medicines before talking to your doctor.
- Do not give your LIPITOR to other people. It may harm them even if your problems are the same.
- Do not break the tablet.

NEED MORE INFORMATION?

- Ask your doctor or health care provider.
- Talk to your pharmacist.
- Go to **www.lipitor.com** or call **1-888-LIPITOR**.

Uninsured? Need help paying for Pfizer medicines? Pfizer has programs that can help. Call **1-866-706-2400** or visit **www.PfizerHelpfulAnswers.com.**

Pfizer helpful answers

Pfizer

Manufactured by Pfizer Ireland Pharmaceuticals, Dublin, Ireland
© 2009 Pfizer Ireland Pharmaceuticals All rights reserved.
Printed in the USA.

Distributed by Parke-Davis, Division of Pfizer Inc.
New York, NY 10017 USA
June 2009

Rx only

www.journal-plaza.net & www.freedowns.net

American policymakers through the 1970s that had been shelved during the bubble years.

Spending policies had a dark side—they shredded government finances. Among the Group of 20 nations, deficits soared from an average of 1% of total gross domestic product to 8%. The U.S. was among the worst offenders, with a deficit equal to 10% of GDP. In the year after Lehman's collapse, America's debt rose by $1.9 trillion.

"In our opinion," wrote Robert L. Rodriguez, CEO of First Pacific Advisors who had issued early warnings of the bubble, "this is a very dangerous road we have chosen."

It is arguable that the U.S. government resolved the crisis simply by appropriating Wall Street's debts, transferring a private-sector problem to the public. In any case, its "solution" further depreciated its international account.

The failure of America's model stirred a geopolitical realignment. Europe no longer slobbered to imitate the U.S.; Asian economies were ascendant. Americans at the 2009 economic summit in Davos, accustomed to preaching the wonders of the market, were subjected to lectures by the potentates of command economies....

The legacy of the bust—what Wall Streeters called the "new normal"—entailed, prospectively, a weaker dollar, a greater government presence, more joblessness, and higher taxes. It was a world of pinched horizons. From roughly the 1980s on, no horizon had been deemed necessary. Ronald Reagan had decreed that government was the problem, not the cure. Markets were viewed as self-regulating ecosystems.

The province of regulation shrank, the volume of market innovations commensurately expanded. By the 2000s, the market's innovations were no longer even questioned: Anything invented on Wall Street was, perforce, good. Complex creations such as securitized assets basked in the presumption of safety. Greenspan's 1998 testimony, recall, was that "regulation of derivatives transactions that are privately negotiated by professionals is unnecessary." The notion that the Street should run a casino, taking bets on which companies will live and which will die, did not strike observers as even mildly objectionable.



JIM YOUNG/REUTERS/CORBIS

HANK PAULSON GAVE VOICE TO THE NEED FOR REFORM AFTER THE LEHMAN COLLAPSE. FOR THE PUBLIC, WALL STREET PAY WAS THE ONLY ISSUE THAT CAUGHT ON.

A generation invested a higher proportion in stocks, fed on the nostrum that risk was outmoded. Just as the fall of the Iron Curtain supposedly ended history, Wall Street's smooth rise through most of the '90s and the '00s was to have ended market history. (No more earthquakes—just steady gains.) The crash of 2008 spelled the end of that end....

Previous to the crash, it was assumed that no statutes or rules were needed to prevent banks from making foolish loans; after all, the theory went, why would institutions ever jeopardize their own capital? This cornerstone of efficient market theory—the view of economic man as always rationally self-interested—was rather embarrassingly upended. Similarly, the faith that bankers know best, that they could be counted on to preserve their firms, was shattered.

It may be too much to expect that, in the future, economists take forecasting models with a grain of salt, or that executives refrain from relying on "liquidity" to bail them out of a jam. But the worst recession in 70 years—unsuspected by most economists even when it had been under way for more than six months—should inspire a modicum of humility. Speculation *will* return, of course, and so will bubbles. The question is whether Americans will treat them so lightly.

Overseas, the notion that central banks should restrain speculation is hardly controversial. In the U.S., it was. Both Greenspan and Bernanke devoted many words to rebutting the idea that bubbles should be "pricked."

Instead, they endorsed a policy of cleaning the mess up afterward. This reflected their doubts that mere humans, even Fed governors, could detect whether an elevated market was irrational—whether any market was irrational. Even after the crash, Bernanke could barely bring himself to utter the word "bubble."

The formative lesson that Bernanke drew on in 2008 had been sketched prior to and during the Great Depression, when, he believed, the Fed had erred in clamping down on credit formation, including the credit used to speculate in stocks. In other words, the Fed had been too restrictive. Future central bankers may draw an opposite lesson from 2008: The Fed let speculation go on far too long. |BW|

www.journal-plaza.net & www.freedowns.net



www.journal-plaza.net & www.freedowns.net



PETER GABRIEL KNOWS WHAT YOU WANT

Even if you don't know yourself. Inside The Filter, Gabriel's recommendation engine for online music and movies

By Devin Leonard
Illustration by Justin Wood

Have you ever gone to a Web site to satisfy some late-night craving for a song? Let's say you were just really in the mood for something Eighties with lots of digital sampling and a thundering beat—maybe along the lines of *Shock the Monkey* by Peter Gabriel. ¶ You download the song and then, before you know it, the site says you might also enjoy Gabriel's *Sledgehammer*. That's about as helpful as saying, If you enjoyed *Hamlet*, you might also appreciate *King Lear*. How did fans of Shakespearean tragedy ever make such connections before the Internet? ¶ Wouldn't it be nice if somebody came along with a better way of recommending music and video on the Web? Actually, someone has. And wouldn't you know it, it's Peter Gabriel himself. ¶ The 60-year-old rocker, who is starting to look like a hipper version of a wizard from a Harry Potter movie with his close-cropped hair and goatee, is the front man for The Filter, a six-year old privately held company in Bath, England, that provides recommendation technology for such clients as Sony Music, Nokia, and thePlatform, a Comcast-owned operation that serves video to the cable giant's online properties. ¶ In early April, NBC announced it was licensing The Filter's technology on its Web sites. So if you visit NBC's *Saturday Night Live* online and the site suggests you watch a clip from *30 Rock*, you will have been touched by The Filter's hidden hand. ¶ "It's a very important one for us," Gabriel says. "We have been building a number of relationships, but obviously NBC is a very large player." ¶ People have been working on recommendation engines for a long time; Netflix once offered a $1 million bounty to anyone who could make its recommendations 10% smarter. The idea is to go one better than search engines: Rather than merely help people find what they're looking for, offer them stuff they didn't know they wanted. And then, preferably, get them to buy. Or in the case of many of The Filter's clients, persuade them to watch more ads. ¶ Stephen Andrade, senior vice-president for digital development for NBC.com, says the company tested The Filter against other recommendation services and found there was no comparison. "The Filter did better than a lot

www.journal-plaza.net & www.freedowns.net



From left: The Filter co-founder Hopkins, Gabriel, CEO Roberts

"GOOGLE HAS MADE BILLIONS OF DOLLARS AT BEING REALLY GOOD AT GUESSING WHAT PEOPLE ARE LOOKING FOR. THIS IS JUST THE NEXT LEVEL."

of its competitors," he says. "That's why we are moving forward with them." (NBC declined to say what other services it considered.)

Gabriel isn't involved in the day-to-day operations of The Filter, which has 15 employees and says it expects revenues of nearly $4 million this year. But he is a lead investor along with Eden Ventures, a British venture capital firm. His representative on The Filter's board is his business manager, Mike Large. Gabriel attends board meetings and strategy sessions; Filter CEO David Maher Roberts, a former jazz drummer, calls him the company's resident "visionary."

This isn't a vanity project for Gabriel. He established himself long ago as a technology thinker and entrepreneur. His interest in tech flowed naturally from his music career beginning in the late 1960s as a founding member of Genesis, the seminal progressive rock ensemble, then as a successful solo artist known as much for his futuristic synth orchestrations as his political messages. In 1990 he invested in a company called Syco Systems which created a digital audio workstation called the Tablet. He took a financial beating. "I totally underestimated how long it would take to get it to market," he says.

Gabriel had better luck in 1999 when he helped start OD2, an acronym for On Demand Distribution. The venture was a music download service that predated Apple's iTunes by four years. For a time, OD2 was Europe's leading online music company with clients like Nokia, MSN, Virgin, and HMV.

Then along came iTunes, which quickly became the dominant online music store. Gabriel says that in 2004 his business partners decided to sell OD2 to a digital media company in Seattle called Loudeye. The British press reported at the time that Gabriel made $11 million from the approximately $40 million sale, but today he sounds regretful. "I did not vote to sell it," he says. "Apple does what it does very well. But I thought it would just be a phase." There was little Gabriel could do to block the sale; he was a minority investor.

It was through OD2 that Gabriel became fascinated with recommendation technology. In 2004 he met Martin Hopkins, a musically inclined physicist who had an online media-recommendation venture. Hopkins began his project out of his frustration managing his own digital music. "Martin had amassed a library of 10,000 tracks," says Roberts. "He was bored because he couldn't find the music he wanted."

According to Roberts, Hopkins wrote software to manage his music and used artificial intelligence that learned his tastes and then suggested playlists. That technology is the basis for The Filter. Gabriel and his OD2 partners concluded the system was superior to anything on the market, including technologies used by Amazon.com and Netflix.

Amazon, which did not respond to interview requests, is famous for telling you if you bought a particular book, you may like another that customers with similar buying patterns have purchased. That's also why people who buy *Sledgehammer* might get a suggestion for *Shock the Monkey*. Or if you search on Gabriel's latest album, *Scratch My Back*, Amazon recommends an album of his songs performed by other bands including one called Bonglab. (Hmmm, we'll pass on that one.)

FICKLE OPINIONS

Netflix makes extensive use of customers' posted opinions. Steve Swasey, a company spokesman, says it has amassed a database of 3 billion movie ratings that enable it to accurately predict what films you might want to watch. But even he concedes that because you rate a movie highly once doesn't mean you'll feel the same about it later. "[Fellini's] *Amarcord* was always one of my top five movies," he says. "I watched it a few years ago, and it fell off my list." And not all Netflix users bother to rate movies, which means the company has to rely on their rental habits instead. Swasey declined to comment on The Filter, saying he's unfamiliar with the company. He did say, however, that he's "a big Peter Gabriel fan."

So what does The Filter do that's so different? "When you are making music or video recommendations, you need to steer people away from the most popular stuff that everyone already has," says Ty Roberts, co-founder of Sony's Gracenote media database unit. "That's what their technology does."

Another difference, says Roberts, is The Filter deals only with digital media, not physical items that can't be tracked after they're purchased online. Amazon, for instance, may know you bought the latest legal thriller by John Grisham. But it doesn't know if you liked it enough to finish it. Netflix may know you rented a DVD of Stanley Kubrick's *A Clockwork Orange*. But what if you decided the film's "ultra-violence" wasn't your thing and you didn't bother to rate it? If that's the case, you might not like Spike Jonze's *Being John Malkovich*, which is also on the company's list of "mindbenders." (Netflix says it is gathering even more information about customer viewing habits through its streaming services.)

MARTIN KLIMEK

www.journal-plaza.net & www.freedowns.net

The Filter, says Roberts, knows if you watched an entire clip of *The Office* at NBC.com. Or if you turned it off halfway through at a point where the show's boss, portrayed with cringeworthy brilliance by actor Steve Carell, goes one cringe too far.

But The Filter's algorithm culls more data than that. Early on the company tested its technology on the BBC's archive of digital TV and radio shows. The library wasn't open to the public, so Roberts and his team collected the usage patterns of tens of thousands of the British network's employees.

The Filter's filters took into account a Netflix-like rating system set up by the Beeb for its workers, and it also included results from a test based on the number of programs the employees saved for later. "They had this little button on their site that you could click on to save something to watch or listen to later," Roberts says. "We found that provided us with much better, way deeper results. There are all these little nuggets of information on everybody's Web site."

"DECISION GURU"

What kind of digital "tells" has NBC.com discovered through The Filter's algorithms? Andrade is coy. But it must have been something useful. "I mean, Google has made billions of dollars being really good at guessing what people are looking for," he says. "This is just the next level."

That is not to say that The Filter hasn't hit some bumps since Gabriel and Eden Ventures together invested $5 million in 2006. (They've since upped that ante to $8 million, along with some other partners.) The service launched as a consumer Web site in 2008. It encouraged users to download a software application that sucked data from users' Last.fm and Flixster accounts. It also observed what they did with their iTunes collections. Then the system took all that information and suggested movies and music.

The Filter found a million users, which, according to Roberts, didn't attract enough ads for the service to turn a profit. So the company shifted strategy early last year to focus on selling its services to media companies. That seems to be working: Roberts says The Filter should break even by the end of the year.

Gabriel says he's certain The Filter could one day serve as an all-purpose "decision guru" that goes beyond music. He sees it as a tool for people who find themselves in, say, Barcelona and need quick tips on where to dine and how to dress. "I think the same way we got used to Google being part of our lives and asking it questions, The Filter will be like our own Babel fish [the translating creature from the comic novel *A Hitchhiker's Guide to the Galaxy*] who will help us make decisions," Gabriel says.

One sign that the company may be on the right track: Roberts, Gabriel, and Eden Ventures say The Filter recently got unsolicited offers from potential buyers, none of whom they would name. "It's funny," Gabriel says. "You struggle along. Suddenly something begins to work and the heat goes right up."

Gabriel adds he doesn't want to sell the company, but worries its venture capital backers feel differently. "A lot of VCs have really been hurting," the singer says. "You get a big sigh of relief from them if they see anything that looks like an exit."

Charles Grimsdale, an Eden Ventures partner and Filter board member (who plays drums in a funk band), acknowledges that he and Gabriel have discussed the potential for a sale. But he says: "I think the business is doing really well. It's got a lot of momentum. We think there is a big opportunity, and we are in no hurry to sell."

Should Eden decide to sell, there may be little Gabriel can do to prevent it. As he was with OD2, Gabriel is a minority investor in The Filter. Anyway, a sale would mean another payday for Gabriel. He says he has plenty of other projects to occupy his time. There's *Scratch My Back*, for instance, his new album of covers of David Bowie's *Heroes*, Neil Young's *Philadelphia*, and other songs. It has been getting critical raves. One can only imagine how much it will test the limits of online algorithms. Gabriel's lush, string-laden interpretations bear little resemblance to the originals.

He's also working on Gabble, an Internet-based video dictionary that would help people in nations with low literacy rates communicate with the rest of the world. "Initially, it will be a fun thing," he says. "But in the long run, it will help people in countries where they don't have good translation services. Now they will be able to communicate with pictures."

But the singer says he isn't through with the recommendatory sciences. If The Filter is sold, Gabriel plans to ask potential buyers for a noncompete exemption so he can create consumer-oriented services along the lines of the original business plan. "I just think there is much more to explore," he explains.

And here's an obvious, non-algorithmic recommendation: Maybe next time he'll be majority shareholder so he'll have the same control of his company that he has over his music. |BW|



Gabriel, at a March concert in Berlin, is a longtime technophile

KAI-UWE KNOTH/APN/AP PHOTO

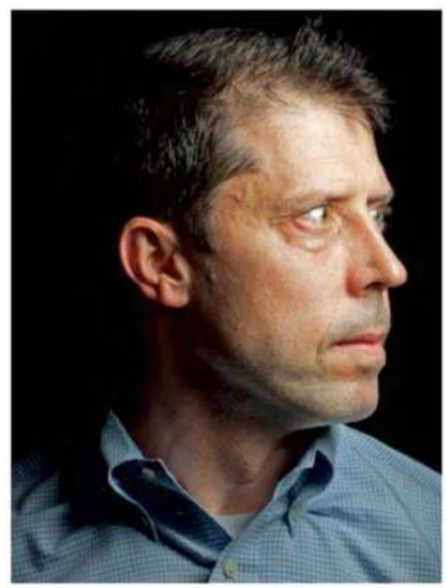
"IT'S FUNNY," GABRIEL SAYS OF POTENTIAL BUYERS. "YOU STRUGGLE ALONG. SUDDENLY SOMETHING BEGINS TO WORK AND THE HEAT GOES RIGHT UP."

www.journal-plaza.net & www.freedowns.net

THE SHERIFFS OF MARLBORO COUNTRY

Altria's private cops are going to new lengths to stop contraband cigarettes

By Nanette Byrnes
Photograph by Ethan Hill



Thorne-Belgand, Altria's director of brand integrity, recently supervised a search for counterfeit cigarettes at Subrina Mini Mart, right. Also pictured: Buffalo brand cigarettes manufactured on Seneca Nation land and a tax stamp on a pack of Marlboros

(COUNTER CLOCKWISE FROM TOP LEFT) JENNIFER S. ALTMAN (3)

On a clear February morning, a team of inspectors marches into the Subrina Mini Mart in the working-class Queens (N.Y.) neighborhood of Woodhaven. The shelves are stacked with instant noodles, Lysol, canned beans, and, of course, cigarettes. The clerk looks nervous. ¶ The inspectors, employees of a private-investigation firm hired by tobacco giant Altria, are searching for counterfeit packs of Marlboros and any that have slipped past New York tax authorities. Three times over the past year this store allegedly sold fake smokes to an undercover agent employed by the Richmond (Va.)-based manufacturer. Altria sued the Mini Mart, one of 35 such suits it has filed in the past 10 months in New York and New Jersey. A federal judge in

www.journal-plaza.net & www.freedowns.net









www.journal-plaza.net & www.freedowns.net



Workers manufacture cigarettes at a factory on Seneca Nation land in upstate New York

Brooklyn issued an order allowing the company to inspect the Woodhaven store and a number of others in the area.

After 20 minutes the Altria squad finds no fakes. Of 30 packs of Marlboro, several bear apparently bogus tax markings, explains Michael Thorne-Begland, Altria's director of brand integrity, who supervised the search. The markings indicate that some of the suspect packs probably were shipped from a low-tax state and stamped to look as if they were originally intended for New York, a high-tax jurisdiction.

Altria says it cares about tax dodging because the practice hurts full-price retailers that have signed deals to promote Marlboro—an important form of marketing in an era when most cigarette advertising is banned. Black market activity also exacerbates a cycle of tax shortfalls leading to higher rates. If taxes rise, some people are more prone to quit smoking; that cuts into Altria's bottom line.

The company can't enforce tax laws on its own, so it passes evidence it gathers to law enforcement officials. "What we want is the message out: Don't sell this," says Thorne-Begland. In a phone interview later, Mini Mart owner Miah Mahnan says he obeys the law and stocks only above-board products.

Cigarette smuggling is booming, in part because New York and 21 other states have raised cigarette excise taxes in recent years. On top of that, the U.S. government increased the federal tax on cigarettes last year by 159%, to $1.01 per pack. A pack now typically sells for about $10 in New York City, more than double what it cost 10 years ago, and the state is considering yet another excise increase.

The high levies, meant to help close huge budget gaps and discourage smoking, have had the unintended side effect of spurring the illicit market. One passenger car filled with Marlboros bought in low-tax Virginia and driven up Interstate 95 to resell in New York can yield more than $30,000 in profit, says Crisanto Perez, a senior official with the U.S. Bureau of Alcohol, Tobacco, Firearms, & Explosives.

In Asia, Altria employees have begun to build an intelligence network to combat the counterfeiting problem. The company cites academic research estimating that factories in China manufacture 400 billion knock-off cigarettes a year. Altria has hired detectives to try to infiltrate the international distributors that sell Chinese fakes to mom-and-pop shops in the U.S. The company says it will funnel the information it gathers to government authorities.

Back in the U.S., Altria has 21 employees in its brand integrity unit, which it created in 2002. They are assisted by outside contractors hired nationwide. The company even has given nearly $2 million over the past eight years to cash-strapped public police departments in such places as Los Angeles and Suffolk County, N.Y., to help fund contraband investigations.

Tax collectors have their own concerns. New York currently

JENNIFER S. ALTMAN

www.journal-plaza.net & www.freedowns.net

Member FDIC

Raise Your Rate CD

1.99%

Annual Percentage Yield

As of 04/09/2010.

If rates go up, yours can too.

With a 2-Year Raise Your Rate CD from Ally Bank, you get an interest rate that's among the most competitive in the country. And, if you notice rates go up, you have the opportunity of a one-time rate increase. Because we want to make sure you don't miss the chance for your money to make more money. It's just the right thing to do. Give us a try and let us show you how banking should be.

ally℠

877-247-ALLY | allybank.com

Straightforward.

Remember: an early withdrawal fee may apply. ©2010 Ally Bank. All rights reserved.

www.journal-plaza.net & www.freedowns.net

loses $1 billion a year because of cigarette tax cheating, according to a 2009 study by the New York Association of Convenience Stores. Across the country, tobacco excise revenue lost annually to smuggling totals $5 billion, the U.S. Justice Dept.'s Inspector General concluded last year.

Proximity to lower-tax states isn't the only reason New York has become the largest market for illegal cigarettes in the U.S. The tobacco businesses on sovereign Native American lands in the Northeast also present a challenge to tax collectors.

The Seneca Nation of Indians—some 7,900 people who live in generally modest conditions on two remote territories south of Buffalo in Western New York—has sold tobacco products without any taxes for more than 20 years. Altria and the state of New York argue that the Seneca should collect levies on sales to non-Indians. The Seneca have refused, citing 18th century treaties with the U.S. government.

The sale of tax-free cigarettes from the Seneca Nation, over the Web and in person, has become a substantial business. Law enforcement officials suspect that a lot of the product ends up resold illicitly on the street. Indian retailers sell a carton of 10 packs of Marlboro tax-free for about $50. Transported to New York City, the carton might sell for $100 in a convenience store, yielding $50 in black market profit.

Seneca leaders say they don't condone the shipment of large quantities of cigarettes for resale. They allege that Altria's current crackdown is aimed at least in part at squelching sales on Seneca lands, especially those of rival discount



Seneca Nation's Snyder has made a profitable business selling tobacco

brands manufactured locally. "We do a lot of business through our own marketing and brands, and that's competition" for Altria, says Seneca Nation President Barry E. Snyder.

Along with a thriving casino business, cigarettes are an integral part of the impressive $1 billion Seneca economy. Snyder, who began opening tobacco shops in the early 1980s, has prospered. He drives a silver Hummer and spends parts of the winter in Arizona rather than frigid upstate New York.

[redacted]

ALTRIA RESENTS COMPETING WITH THE SENECA TRIBE, WHICH DOESN'T CHARGE TAXES ON SMOKES



For a time, Marlboro courted the Seneca trade, sending company representatives to negotiate deals with Native American vendors similar to those offered mainstream retailers. Altria has tried in recent years to cut off wholesalers that supply retailers not charging taxes, including the Seneca. That strategy was successfully challenged in the courts, and Altria has resumed its dealings with the wholesalers. Still, the company alleges that the tribe's sale of large amounts of cigarettes via Internet sites gives teenagers too young to buy tobacco products a chance to obtain Marlboros and other brands. The Seneca vehemently deny this.

The company encouraged the decision in 2005 by all major credit-card companies to stop processing online tobacco sales. It also lobbied for legislation passed by Congress in March that forbids the U.S. Postal Service from shipping cigarettes. Both moves have the effect of limiting the Seneca's online sales.

Seneca retailers operate most of the largest tobacco sales sites online. Tribe member Suzanne Smith built a thriving business at senecasmokeshop.com. These days her top sellers are Seneca, Pride, and other Native American brands. As a result of the new postal restriction, she expects to lay off at least one-third of her 45 full-time workers. Those who stay will work for other businesses she runs, including a temporary-nurse registry.

Her daughter, Alyse Pierce, a mother of five, is one of her mother's employees. She, too, resents Altria's recent actions. "We sell tons of their stuff, yet they work against us," Pierce says. Once, she adds, Marlboro and other major brands comprised 50% of her sales. Now that figure is closer to 10%.

Altria's Thorne-Begland concedes that Native American sales have put a modest dent in Marlboro revenues. The "Seneca do shift buyers from Marlboro" to their own cheaper brands, he says. "They offer a trade-off: If you like Marlboro, you'll love this."

The tobacco company executive portrays Altria as the victim. What's unfair, he argues, is that the Seneca and other retailers sell untaxed cigarettes at half the price of competitors': "We want a level playing field," he says, "where everyone plays by the same rules." |BW|

(L-R) JENNIFER S. ALTMAN; MARCELLE FAUCHER/FIRST LIGHT/CORBIS

www.journal-plaza.net & www.freedowns.net

BusinessWeek
EVENTS

Shanghai • China



Innovating for a sustainable future

Global Green Business Summit

Global Green Business Summit

Tuesday 8th June, 2010
Shanghai

The world is moving more quickly than anticipated toward a carbon-constrained economy. It is not a question of "if" or "when" anymore—but "how fast?". For those forward-thinking companies and governments that adapt their business models and thinking now—and many are—the rewards will be great.

This 2nd annual **Global Green Business Summit** has green innovation as its focus, and will showcase the new and innovative products, services, policies, and processes designed to meet today's corporate need for profit—without sacrificing the well-being of future generations.

Conference Co-Chairmen:
Norman Pearlstine, Chief Content Officer, Bloomberg L.P. & Chairman, Bloomberg BusinessWeek
Wang Zhongyu, President, China Enterprise Confederation

Why attend?

- Hear how global brands are implementing profitable green solutions to the challenges of climate change
- Come to grips with the strategic implications of a de-carbonized global economy
- Network at a senior level with other green business visionaries
- Understand the implications of new and upcoming policy and regulations
- Discover how you can maximize both financial return and social good
- Exchange ideas, hear about new initiatives, and brainstorm solutions

For sponsorship opportunities, please contact:

Christina Lee, Asia Managing Director
Tel (65) 6212 1168
Email: clee372@bloomberg.net

For speaking opportunities and event admission, please contact:

Stella Xu, Business Development Director
Tel (86 10) 6649 7551
Email: sxu43@bloomberg.net

Organizers:

BusinessWeek

中国企业联合会
China Enterprise Confederation

Shanghai Municipal Government

With Support From:

中国可持续发展工商理事会

Media Partners:

sina 新浪财经
finance.sina.com.cn

中国航空报社
CHINA AVIATION NEWS

ce.cn 中国经济网

财经网
CAIJING.COM.CN

Xinhua PR Newswire

China Briefing

Speakers Dinner Sponsor:

Standard Chartered
渣打银行

Production & Management by:

www.bloomberglink.com/gatherings.php

www.journal-plaza.net & www.freedowns.net

58 Belarus: Capitalism's unlikely frontier
60 ID theft hits health care
62 Making diabetes testing fun—and profitable
64 China loves Amway
66 Credit-card reform skips small business

WHAT'S NEXT

ECONOMICS & POLICY

How Korea Fretted Its Way to Success

Years of worrying about being squeezed by China and Japan helped Seoul stand up to its rivals. Now it's obsessed with finding the Next Big Thing

By Moon Ihlwan

The Korean business community thrives on worry. And for most of the past decade its main fear has been what could be called the Big Squeeze Theory. With higher labor and production costs than most Chinese exporters, the theory went, Korea's major conglomerates, or *chaebol,* would start losing market share to Chinese champions such as Huawei, BYD, or Baosteel. At the same time, Hyundai Motor, LG Electronics, and Samsung would, after a decade of dazzling success, finally be out-innovated by their archrivals in Japan.

The fretful Koreans got it wrong. Helped in part by a cheap won, exports of cars, ships, electronics, and semiconductors are soaring, while China has yet to pose a credible threat to Korean products. Instead, the Chinese are now mostly seen as customers, not rivals. Korea's exports to China jumped almost fivefold from 2000 to 2009, to $86.7 billion. "There's a consensus that China represents more of an opportunity than a threat," says Im Sang Hyug, senior researcher at the Federation of Korean Industries. Thanks partly to the healthy China trade, many companies, including LG, Hyundai, and Kia Motors, posted record profits last year. "Korea is the first country to stage a full V-shaped recovery," says Jeroen Plag, Korea manager for Dutch bank ING Group.

The Japanese aren't putting up much of a fight, either. Case in point: televisions using light-emitting diodes as a light source. Thinner and lighter than other flat-screen TVs, the LED sets also have sharper, brighter images. Every TV maker has to have an LED offering. Yet after just a year, Samsung dominates the category with 85% of the vital U.S. market. The company forged ahead with an investment of hundreds of millions of dollars in 2009 in LEDs, despite the recession, and has trounced Japan's Sony, Panasonic, and Sharp. In 2009, Samsung Electronics posted a 75% rise in profit, to $8.5 billion.

These big home runs have changed the mood in Korea. "I hear from a lot of people saying, 'Korea is on the rise. We have a lot of hope,'" President Lee Myung Bak told the nation in a recent radio address. Yet at some level, Koreans are still worrying. Big Squeeze Theory may be dead, but in its place is a new one: Finding the Next Big Thing.

The government and the *chaebol* now fear that some other country—India, China, even the U.S.—will come up with the defining business of the next generation. The Koreans are not sure what that business is, but they're spending billions in private and public money to discover it. They're also refining an old feature of Korean life, government planning, to lead the search.

The Middle East is already enjoying the benefits of Korean foresight. Seoul has been urging Korean construction companies to increase their presence in the Persian Gulf. In 2009, Korean companies priced so aggressively that they won half of all contracts handed out for oil and gas projects in Abu Dhabi, some $30 billion in all, says the International Contractors Association of Korea. A consortium led by state-controlled utility Korea Electric Power snagged Korea's first-ever overseas nuclear contract, beating France's Areva and a joint venture between General Elec-

KOREA INC. RAKES IT IN



*Estimated value of overseas contracts won in 2009

Data: BW, Korean government



SIDDHARTH SIVA/ARABIAN EYE

www.journal-plaza.net & www.freedowns.net



Samsung's Kim with the skyscraper his company helped build in Dubai

tric and Hitachi for a project to build four plants in the United Arab Emirates. Soon, Korean companies will be "competing head to head with U.S. and European companies across the world," predicts Kim Kyeho, executive vice-president for Samsung C&T in Dubai. Samsung was primary contractor for Dubai's 162-story Burj Khalifa tower, the world's tallest skyscraper.

Korea's central planners want the *chaebol* to entertain even bigger ambitions. Led by President Lee, the cabinet last year launched a plan to expand Korea's economic base by promoting robotics, health care, biotechnology, green transportation, renewable energy, and other next-generation ventures, some 17 in all. The goal is to double exports in these areas, to $434 billion, by 2013; create a million jobs; and reduce the economy's dependence on info tech, shipbuilding, and autos. To spur this change, the government plans to spend $22 billion by 2013 to finance R&D.

In robotics, for example, Seoul has already doled out $500 million in R&D and is underwriting pilot projects to test education, entertainment, and disaster-fighting robots. Korea, which saw its robot exports jump 10.5% in 2009, to $809 million, aims to become one of the top three industrial robot manufacturers. It currently is No. 5 behind Japan, the U.S., Germany, and Italy.

For green technology, Lee's cabinet will focus on developing innovations for solar and nuclear, expanding the use of LEDs and stepping up renewable energy mandates across the country. The government will actively promote the convergence of the broadcasting and telecom industries and offer low-cost loans to help develop content for this emerging hybrid business.

Big ambitions. But Korea has a track record now. A generation ago, silicon chips and autos transformed the country and helped pull it out of an Asian currency crisis. If the Koreans succeed in half the areas they're investing in, they'll soon need something new to worry about. |BW|

www.journal-plaza.net & www.freedowns.net

Belarus: Capitalism's Unlikely Frontier

With Russian subsidies declining, President Lukashenko is looking westward for investment



By Carol Matlack

French software startup Abaxia was hunting for an offshore research and development site in 2006 when one of its employees suggested taking a look at his native country, Belarus. "I had to get out an atlas to be sure where it was," recalls Ongan Mordeniz, Abaxia's R&D chief.

Today, more than half of Abaxia's employees work in the former Soviet republic of 9.5 million, wedged between Russia and Poland on the EU's eastern rim. The company and two affiliates employ 85 engineers at a software development center in Minsk near the former Communist Party headquarters, which is now President Alexander Lukashenko's residence. They're among an estimated 10,000 professionals working for outsourcing operations in what is now the region's No. 3 country for such shops, behind Ukraine and Romania, according to the Central and Eastern European Outsourcing Assn.

Why Belarus? After all, two decades after the fall of the Berlin Wall the country still seems sealed in a time capsule, with a centrally planned economy run by an authoritarian leader who is routinely denounced by Western governments for what the U.S. State Dept. terms "frequent serious abuses" of human rights. Minsk (pop. 1.8 million), a tranquil city of wide boulevards, hulking Stalinist architecture, and Soviet-era factories, is an unlikely place to find capitalism's new frontier.

Yet the Lukashenko government is opening the door to investment as never before. Since 2007 it has enacted regulatory reforms and tax relief measures that have vaulted Belarus from 129th place to 58th on the World Bank's ranking of the "ease of doing business" in 183 countries. (Poland ranked 72nd, Russia came in 120th, and Ukraine was 142nd.) The Belarus government says foreign direct investment more than doubled last year, to $4.8 billion, even as investment plummeted in neighboring countries.

American companies may soon join the wave. In late March representatives of Microsoft, Cisco Systems, Honeywell, and Navistar (formerly International Harvester) visited Minsk for meetings with Lukashenko and top business leaders. "We see great opportunities here," says Veronika Přikrylová, Microsoft's business development manager for Central and Eastern Europe. Microsoft is opening a sales office in Minsk this spring and hopes that having a local presence will help it combat piracy. An estimated 80% of software now used in Belarus is illegally copied, Přikrylová says.

Lukashenko is looking westward as Russia pulls back on aid to its neighbor. Belarus' economy has long been kept afloat by Russia, which has supplied it with below-market-priced energy while soaking up exports from inefficient Belarussian factories. Economic growth over the past decade has averaged 7.1% annually. "We are not

UPSTART IN THE NEIGHBORHOOD

Belarus has suffered less than its neighbors in the global recession



Data: International Monetary Fund, Belarus National Investment Agency, Ukraine State Statistics Committee, PricewaterhouseCoopers, European Bank for Reconstruction and Development

www.journal-plaza.net & www.freedowns.net



Abaxia R&D chief Mordeniz works with 85 engineers in Minsk

GUEORGUI PINKHASSOV/MAGNUM

rich, but the government takes care of us," says Galina Zorina, a retired piano teacher strolling through Minsk with her sister, carrying a spray of willow branches for the Russian Orthodox version of Palm Sunday. Russia has subsidized Belarus to keep it as a buffer against EU and NATO expansion.

The nation has been a high-tech magnet since Soviet times. Minsk was one of the Communist bloc's computer-science capitals, and local universities still turn out 4,000 information technology grads every year. Salaries, which average $1,200 a month for Abaxia's engineers, are only slightly above the $1,160 average for engineers at India's IT outsourcing companies. Yet while some graduates emigrate, the low cost of living in Belarus keeps many at home. "I thought about moving to the U.K., but it's easier to support my wife and kids here," says Alexey Balushkin, 27, a senior software designer at Abaxia.

Belarus also produces world-class specialists in mathematics and physics. That's an attraction to companies such as Invention Machine, a Boston-based group that in 2004 acquired the assets of a Belarus software company. Invention Machine now runs an 80-person lab in Minsk, including a team of computational linguists who develop "semantic engines" capable of extracting and analyzing key concepts from documents in multiple languages. "They have taken the field of natural language processing to a new level," says James W. Todhunter, the company's chief technology officer.

Invention Machine is one of 78 tenants in a high-tech park the government established in Minsk in 2005. All benefit from generous incentives, including exemption from Belarus' 24% corporate income tax and a provision that lets expatriate managers work without having to obtain work permits. "No other country in the region has done this much" to attract IT investment, says Arkady Dobkin, CEO of EPAM Systems, a Newtown (Pa.) outsourcing company with over 2,000 employees in Minsk and a client list that includes Microsoft, Oracle, and SAP.

For now, the outsourcing boomlet is still in its infancy; the estimated $300 million it generates each year is dwarfed by the $2.5 billion in annual oil subsidies Russia has provided. Russia, pushing to get its crisis-hit economy back on track, said in January that it would end most of the subsidies this year. "It's going to get much harder for us," says Georgy Egorov, chairman of Belvnesheconombank, a leading bank in Minsk. To raise cash for the government, Lukashenko has restarted a long-stalled privatization effort. In the past two years the government has sold controlling stakes in two mobile-phone companies to Mobilkom Austria Group and Turkcell and has said it will privatize banks. Strategic investors are also moving in. In December, Italy's Finmeccanica agreed to partner with Belarussian companies on engineering, transport, and aerospace projects. "There are few investment opportunities like this left in the world," says Tom Mundy, an economist at Moscow-based Renaissance Capital. Belarus' proximity to Europe, well-educated population, and solid infrastructure add to the appeal, he notes.

Whether global companies are ready to do business with Lukashenko is an open question. Although U.S. and EU sanctions imposed on Belarus in 2006 have expired, he still draws criticism from the West. On Mar. 30, EU Foreign Affairs Minister Catherine Ashton expressed "grave concern" about harassment of opposition figures in the runup to regional elections on Apr. 25.

Companies remain cautious. Navistar, for example, has considered supplying engine technology to MAZ, a Soviet-era producer of trucks and buses. "They need some kind of Western partnership," says Steven Hyde, Navistar's vice-president for international business development. But, he predicts, doing business in Belarus will remain an unappealing sell "as long as there is a high dependence on political personalities instead of the rule of law." |BW|

www.journal-plaza.net & www.freedowns.net

BusinessWeek

PRIVACY NOTICE

Occasionally, and subject to applicable laws, we may share your name, address, and e-mail address with other units within Bloomberg L.P., its subsidiaries, and its affiliates as well as to selected outside companies whose products or services we feel may be of interest to you. Many of our subscribers find these promotions valuable, whether they are shopping for new services or taking advantage of a special offer.

Please be assured that we take your concerns about your privacy seriously, and we intend to take every reasonable effort to protect it. To that end, we have developed a comprehensive Customer Privacy Policy. If you'd like more information about our use of customer data, please review our Privacy Policy, located at: www.businessweek.com/privacy

Please note that this information is stored in a secure location in the U.S. and that access is limited to authorized persons.

If you would prefer not to have your data shared by Bloomberg BusinessWeek with either other units within Bloomberg L.P. or outside companies, please go to: businessweek.rmvs.com/bwo_o.asp

If you have any questions or comments, or want to confirm the accuracy of your information you have provided, please call 1-877-835-6628 or write to:
BusinessWeek Customer Service
1995 G Avenue
Red Oak, IA 51566

Bloomberg BusinessWeek publishes weekly, except when combined issues are published that count as two issues, and when an additional special issue may be published.

Copyright 2009 Bloomberg L.P.

Stealing Your Identity For Liposuction

Crooks are using pilfered data to charge health care —from cosmetic surgery to emergency room visits

By Margaret Collins



Morgan found a $12,000 charge for liposuction on her health-care credit card

TIMOTHY ARCHIBALD

Sierra Morgan, a 31-year-old respiratory therapist from Modesto, Calif., was billed $12,000 on her health-care credit card in November for liposuction, a procedure she never requested or had. "It's depressing to know that someone used my name and knows so much about me," she says.

Brandon Sharp, 38, found more than $100,000 of unpaid medical bills on his credit report when he went to buy a home. The charges included $19,501 for a life-flight helicopter trip and emergency room visits he never made, says Sharp, a project manager for an oil company in Houston. "I'm as healthy as they come," he says. He spent more than six months correcting his medical files and credit report and reversing the outstanding charges.

Stories like these are becoming alarmingly common. There were more than 275,000 cases of medical information theft in the U.S. last year, twice the number in 2008, according to Javelin Strategy & Research, a market research firm in Pleasanton, Calif. The average fraud totals $12,100, Javelin says. "If the health insurance is valid, they'll treat you and not always check your ID," says Jennifer Leuer, general manager of ProtectMyId.com, an identity-protection service sold by Experian, the credit reporting firm. "It's becoming the credit card with a $1 million limit."

Medical ID theft comes in a variety of forms. Thieves may impersonate a patient, as in Morgan's case. Criminals

www.journal-plaza.net & www.freedowns.net

can set up fake clinics to bill for phony treatments; and some medical workers download records to sell to people who will use them to commit fraud.

The problem is likely to worsen as more medical records go into digital form, a priority of President Obama's health overhaul. Digitizing records saves money and can lead to improvements in care. "Having information available to physicians and caregivers is a life-and-death matter," says Glen Tullman, chief executive of Allscripts, which sells medical records software.

FRAUD IS LIKELY TO GET WORSE AS MORE PATIENT RECORDS GO DIGITAL— A PRIORITY OF OBAMA'S HEALTH OVERHAUL

DIGITAL AND PORTABLE

At the same time, digital files may be easier to steal. "Once files are in electronic form, the crime scales up quickly," says Pam Dixon, founder of the World Privacy Forum, a nonprofit consumer-research group based in San Diego, which analyzed a decade of consumer complaints filed with the Federal Trade Commission and medical identity theft cases from the Justice Dept. "There are cases where someone has walked out with thousands and thousands of files on a thumb drive. You can't do that with paper files."

Medical identity theft is more than twice as costly as other types of ID frauds, says James Van Dyke, president of Javelin, in part because criminals use stolen health data an average of four times longer than other identity crimes before the theft is caught. Some thieves are able to change the billing address for a victim's insurance so the victim is unaware of charges. The $12,100 average fraud involving health information is far higher than the average $4,841 for all identity crimes last year. Consumers spent an average of $2,228 to resolve health ID frauds, six times more than other types, according to Javelin.

The damage can go beyond the financial. In some cases, patients' medical records have been altered to reflect diseases or treatments they never had, which can be life threatening in an emergency, says Dixon. And victims can find themselves denied care if their health coverage has been exhausted.

To guard against fraud, patients should request a copy of their medical files from their doctors after each visit, ask their insurer annually for a list of claims, and watch their credit reports, according to the World Privacy Forum. Dixon advises victims to file a police report and contact the Federal Trade Commission because it may help their case when asking a hospital or doctor to amend errors in files.

Sierra Morgan contacted the police and worked with the health clinic in Sacramento that had billed for the liposuction to capture the impersonator, who is in custody awaiting trial. "I wanted to catch her," Morgan says. "What nerve she had, using my name to get liposuction." |BW|

GRADUATES of University SALES Programs...
✔ Have a 35% Lower Turnover Rate!
✔ Require 50% Less Ramp Up Time!

Did you know there are over 4,000 colleges and universities in the U.S., but a very small percentage of them teach sales? With the University Sales Education Foundation's efforts, over 500 companies are now investing in University Sales programs and have realized the benefits of reduced ramp-up time and turnover. Do you want to know how you can benefit?



ANNOUNCING… The 2010 USEF Top Sales Universities Publication is now available for FREE download. Read articles about successful sales representatives who have been trained through University Sales Programs and the smart companies who were fortunate enough to recruit them. This publication also lists the Top Universities who have a confirmed sales education program. Go to: www.saleseducationfoundation.org/publication.html to download. This publication is sponsored by HR Chally, founder of the USEF and provider of The Career Match Program.

THE UNIVERSITY SALES EDUCATION FOUNDATION™
www.saleseducationfoundation.org

www.journal-plaza.net & www.freedowns.net

Diabetes Is No Fun–But It Can Be a Game

Bayer hopes that partnering with Nintendo will make it the leader in glucose testing

By Arlene Weintraub

Luke Wessel was four years old when he figured out how to hide the glucose meter his parents used to monitor his diabetes. He associated the device with uncomfortable finger pricks needed to test his blood sugar, so he hid the meter under rugs or beneath his mattress. "It was like an Easter egg hunt every day," says his father, Paul Wessel, an inventor and entrepreneur. In contrast, Luke treasured his Nintendo Game Boy—which gave his dad an idea: How about a video game that would reward Luke for every drop of blood he drew?

Wessel's brainstorm is now a commercial product backed by German health-care giant Bayer, which purchased the company Wessel founded and brought him on board to launch Didget, the first glucose meter that plugs directly into a game console. Didget went on sale in the U.K. last year. And while Bayer says it's too early to gauge its success, the company plans to roll it out in the U.S. in May.

Keeping things simple is crucial to Didget's formula. Once the meter has taken a reading, the user syncs it with a Nintendo DS handheld—the successor to the Game Boy—and boots up an adventure game called Knock 'em Downs World's Fair. The program rewards players for performing a prescribed number of tests each day by bestowing points that speed the player through the game. Additional points are earned for staying within target blood-sugar ranges, which parents can program in. "There used to be days when I didn't want to test," says George Dove, 12, of Nottingham, U.K., who must use the meter as many as eight times a day. "Now, it's fun."

Bayer executives are counting on Didget to help them regain the lead they won, then lost, in the $7 billion-a-year diabetes testing market. The company created the first blood-glucose meter in 1973 and dominated the market for the next 20 years, says Sandra Peterson, president of Bayer's Medical Care unit in Tarrytown, N.Y. In the late 1990s, Bayer had as much as 40% of the market. By the time Peterson was hired in 2005, its share had dwindled to 10%. Roche and Johnson & Johnson have 25% each, according to consultants IMS Health.

NEW DIRECTION

Nearly 24 million Americans suffer from diabetes, according to the U.S. Centers for Disease Control and Prevention, of which just under 1% are younger than 20. The American Diabetes Assn. expects the total number to double over the next 25 years, which means there will be many more pediatric patients dependent on insulin. Other nations are grappling with epidemics of similar proportions.



Bayer's new device for kids is a game and glucose test rolled into one

When Peterson took charge of the Bayer unit, her first move was to hire a new team and spell out a clear mandate. "We had to understand the customer. We couldn't just emulate what others were doing," she says. Bayer boosted the technical capabilities of its meters by shortening the time it took to get results and making the displays more readable. Sales of Bayer's Ascencia Contour meter jumped 53% last year, according to IMS. But what Bayer really needed, Peterson decided, was a whole new direction.

Didget and the partnership with Nintendo fit the bill—and presented new challenges. If diabetes patients purchase an ordinary glucose meter, most insurers provide full coverage. Games are another story. Prices for the Nintendo DS system range from $125 to $200, none of which is likely to be reimbursed. On top of that, the meter and game will retail for $75, and only a small portion of that is expected to be covered by insurance.

The Bayer-Nintendo alliance is part of a broader push by the drug industry to harvest good ideas from unconventional sources, says Carolyn Buck Luce, global pharmaceutical leader for consulting company Ernst & Young. In November, Sanofi-Aventis U.S. launched an iPhone app called GoMeals, which helps diabetics track the nutritional content of foods they eat and locate restaurants that serve meals in keeping with their dietary restrictions. The app, which is free, has been downloaded 63,000 times. Games and apps "represent a major shift from being product-centric to being patient-centric," says Buck Luce.

The video game industry has been pushing into health-related entertainment for more than a



www.journal-plaza.net & www.freedowns.net



Dove has to use the meter as many as eight times a day but no longer finds it a chore

JUDE EDGINTON/REDUX

decade. One of the first efforts around diabetes was a 1995 game for Nintendo systems called Packy & Marlon, featuring two diabetic elephants who taught kids the importance of maintaining glucose levels. Among children who played it over a six-month period, emergency-room visits dropped by 77%, according to a 1997 paper published in the journal Medical Informatics by communications expert Debra Lieberman, one of the game's developers. Diabetic youngsters in the study who played standard shoot-em-up fare showed no such results. If anything, staying glued to a sofa went against doctors' efforts to promote active lifestyles. For that reason, "a lot of families thought video games were evil," says Lieberman, now director of a program called Health Games Research, at the University of California at Santa Barbara. In the end, Packy & Marlon didn't meet sales expectations.

"It was a fabulous science story and a not-so-fabulous business story," the researcher says.

In 1998, Japanese game company Konami launched Dance Dance Revolution, a music game for arcades that tapped into a physical fitness craze in Japan and the U.S. By 2005, global sales of the game in arcades and on consoles exceeded 7.5 million units. The next year, Nintendo released Brain Age for the DS system, aimed at improving baby boomers' mental acuity. The game sold upwards of 8 million units in its first year.

CHANGE THE CONTENT

Bayer's approach weaves a painful task, blood testing, right into the entertainment. Since launching Didget, Peterson's team has spent months talking to doctors, parents, and children to help refine the product and marketing plan in advance of its U.S. debut. Among the lessons learned: The content should be updated every six to ten months to hold children's attention, says Richard L. Stadterman, a vice-president of global research and development for Bayer. Some caregivers may be worried about their kids' sedentary behavior, but it's not a deal-breaker, he says. "Parents will do anything to help their children control their disease. They'll spend anything."

"PARENTS WILL DO ANYTHING TO HELP THEIR CHILDREN CONTROL THEIR DISEASE. THEY'LL SPEND ANYTHING."

Paul Wessel, who had to mortgage his house three times while developing the first iteration of Didget, is pleased to see his brainstorm bearing results. "These children are kids first. They have diabetes second," says the inventor, who retired from Bayer last year. The illness doesn't have to ruin their lives, he adds. "I hope we can make the kids see that." BW

–With Naomi Kresge

www.journal-plaza.net & www.freedowns.net

STRATEGY & COMPETITION

What Sold China On Amway

Patience and tons of face cream have turned the mainland into the company's top market

By Bruce Einhorn

Rose Yang is an Amway believer. The fiftysomething Shanghai resident sells full-time for the Ada (Mich.) direct marketer of vitamins, detergents, and skin creams. She's recruited her mother, aunt, sisters, sisters-in-law, and daughter to the Amway banner. "I can't help myself," says Yang, dressed in a tweed jacket and matching scarf.

Yang's enthusiasm is testimony to the turnaround in Amway's fortunes on the mainland. Amway salespeople started selling door to door in China in 1995. Soon after, fly-by-night operations imitating Amway's direct sales techniques sprang up. Their eventual collapse sparked riots. Beijing felt uneasy for another reason: Direct selling seemed custom made to spread religious beliefs or political dissent. The government banned all direct sales companies, including Amway, in 1998.

Amway hung on, opening actual stores to show its commitment to the market. Executives made numberless trips to Beijing before the government relented in late 2006 and let Amway agents sell directly to consumers again. "The No. 1 attribute you need when you do business in China is patience," says Amway (China) Chairwoman Eva Cheng.

Privately held Amway now has 237 shops in China, 160,000 direct sales agents, and $3 billion in revenue, making China its top market (worldwide sales are $8.4 billion). At an R&D center in Shanghai, 60 technicians work on new products. Cheng is spending $100 million on marketing.



Amway's corporate culture—the name is short for American Way, and company executives in the past have been major supporters of the Republican Party—might seem out of place in a country ruled by Communists. But President Doug DeVos (whose brother Dick was the unsuccessful GOP candidate for Michigan governor in 2006) says there's "a good cultural fit." Many Chinese like Amway's entrepreneurial hustle. And consumers, concerned about product safety after well-publicized scares involving locally made products, prefer getting sales advice from a friend. "Because China is a fairly low-trust environment, word of mouth becomes a big component when deciding what to buy," says Ben Cavender, senior analyst with China Market Research, a Shanghai consulting firm.

Over the years various authorities around the world have questioned Amway's business practices. The Federal Trade Commission investigated it for running a pyramid scheme, but concluded the charges were unwarranted. British regulators tried to shut Amway down for allegedly misrepresenting the amount of money new recruits could earn. A court eventually found in Amway's favor. Even today, though, Beijing forbids teachers, doctors, and civil servants from becoming direct sales agents. Unlike in the U.S., Amway salespeople in China can't get a cut of sales made by agents they recruit.

CHINESE LIKE AMWAY'S ENTREPRENEURIAL HUSTLE, AND WORD OF MOUTH IS A BIG SALES COMPONENT THERE

The restrictions aren't a drag on Amway, but renewed competition is a concern. Archrivals Avon Products and Mary Kay are ramping up their direct sales forces. Women of China: When the doorbell rings, be prepared for the sales pitch. |BW|

China boss Cheng waited years for the final green light from Beijing

PAUL HU/ASSIGNMENT ASIA

www.journal-plaza.net & www.freedowns.net

ADVERTISEMENT

Clean Coal Technologies Inc. CEO Says Company Is Riding High With the Times

Environmental Wave Benefits Innovative Company

Clean Coal Technologies Inc. is perfectly positioned to ride the environmental wave into a very profitable future, says CCTI (Pink Sheets: CCTC) President and CEO Doug Hague.

Clean Coal Technologies Inc. owns a patented pre-combustion technology to reduce the contaminants and pollutants created by the burning of coal through a multi-stage process that transforms coal with high levels of impurities, contaminants and other polluting elements into an efficient, clean and inexpensive source of high-energy, low-polluting fuel.

And this technological innovation could not have come at a better time.

"When so much of the world's attention is focused on the environment, our technology represents a breakthrough in addressing health and environmental issues, in addition to enabling the continued use of fossil fuels as a basis for energy generation, and reducing dependence on foreign sources of oil," says Hague. "We are very fortunate to have a technology that enables the company to capitalize on this enormous potential. The increasing demand for economical energy growth, coupled with environmental stewardship, clearly places us at the crossroads where we can capitalize on our ability to address both of these attributes."

Although the U.S. has 30 percent of the world's coal reserves – but only 5 percent of its oil – CCTI's first inroads have been in China.

"The environmental issues associated with China's rapid economic growth – fueled by some 2,000 to 3,000 coal-fired power stations – are well known, and with the assistance of the US Commercial Service, provided a logical focus for our technology. In 2008, we signed a large joint venture agreement in Inner Mongolia for the upgrade of low-grade lignite to a quality acceptable for conversion to fuels. The project at completion will produce some 80 million tons of clean coal per year, and represent a capital investment on the order of $8 billion," he said.

But China is only the beginning.

"Subsequently, we have signed a Technology Licensing Agreement for India, and expect to sign a further licensing agreement in China this month. In the U.S., our technology is creating widespread interest, and we anticipate signing our first U.S. licensing agreement later this year. Whereas our initial contract was to supply fuel for coal-to-liquids, our current focus is on providing clean-burning fuels for power stations and industrial consumers."

Hague said the deals with China, India and the U.S. are real breakthroughs for the company.

"At a time when there is so much national and international focus on the environment, the award of these contracts is testimony to the value placed on our technological approach. In fact, we are not advocates of coal per se, however, recognizing that coal will continue to be the primary source of cost-efficient energy for the foreseeable future, we have positioned CCTI as the provider of technologies that will provide the 'bridge' between today's energy solutions and those of the future by addressing the major issues associated with the use of coal – chemical emissions (such as sulfur and mercury) that are the cause of widespread health issues and threaten our most vital resource, clean water."

Hague believes coal will be the nation's – and the world's – primary fuel source for a long time to come.

"The U.S. has the world's largest proven reserves of coal, and represents the largest single unit of energy in the world secure within the borders of one country. We can transform coal into an exceptionally efficient, clean and inexpensive source of high-energy, low-polluting fuel," he said. "The reduction in airborne pollution and contaminants is dramatic – up to 90 percent in some test cases. Byproducts of the process are captured and can be sold on the secondary chemical market as an additional value-add. One byproduct, methane gas, is re-introduced into CCTI's plant as a fuel source to reduce dependency on external energy resources.

"As a means of repositioning the image of coal, we have trademarked the name 'PRISTINE' for the clean fuel produced by our process."

Cleaner coal will mean less dependence on foreign oil.

"It is ironical that technologies such as ours are being deployed in China and elsewhere to capitalize on domestic coal reserves as a means of eventually eliminating foreign energy dependence, which is something the U.S. will undoubtedly pursue in the future," Hague continued. "With our large reserves of low-ranked fuels that are ideal for coal-to-liquids applications, CCTI is well positioned to replicate its China project back here at home."

Hague said the company will be working hard on the U.S. market this year, and the future looks bright.

"Whereas we are very pleased with our progress overseas, we are placing considerable focus on ensuring that in the future we will have the same degree of acceptance here in the U.S. Our preferred business approach is one of licensing our technology, and it is creating considerable interest from utilities seeking to curtail emissions, coal producers upgrading calorific values of low-grade coals, and providers of coal-to-liquid applications.

"We are also evaluating complementary technologies that will provide a more cost-effective solution to conventional CO_2 approaches being pursued today – CCTI is an advocate of carbon separation, as opposed to capture and sequestration (CCS), and is actively involved in the research of various technologies to support this approach."

Hague concluded: "Given the ever increasing need for cleaner and more efficient fuels, coupled with our relationships with arguably some of the world's best scientific and technical resources, we are very excited about the tremendous opportunities afforded our Company, and look forward to fully developing our technology's potential to become a global industry standard."

For Investment information contact:

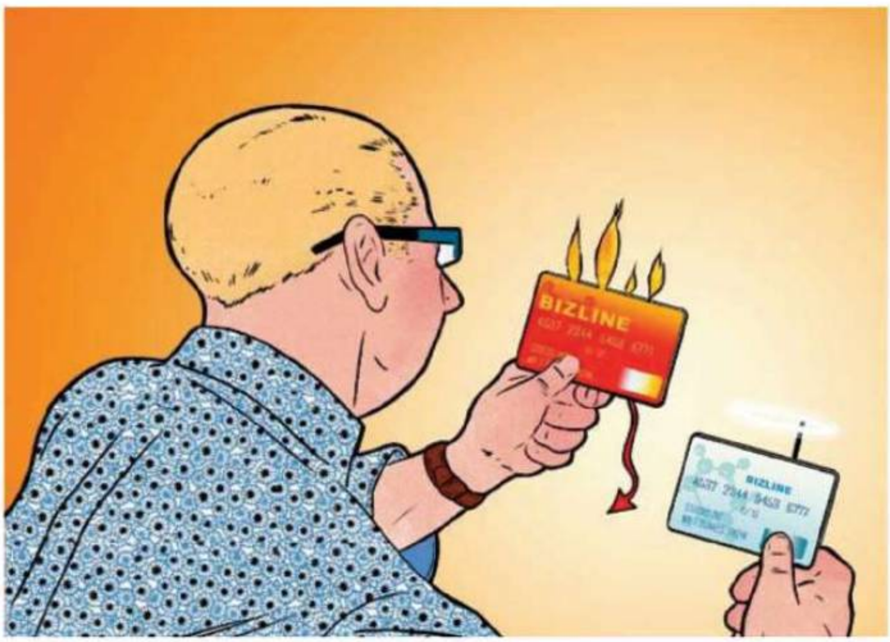
Doug Hague
Telephone: (954) 344-2727
Fax: (954) 757-1765

www.journal-plaza.net & www.freedowns.net

ENTREPRENEURS

Stacking the Cards Against Small Biz

New laws that relieved consumers of fees and rate hikes don't apply to business credit cards



By John Tozzi

When Washington's new credit card rules took effect on Feb. 22, most cardholders got some relief from practices that consumer advocates have long condemned, like raising rates on old balances or applying payments in a way that maximizes interest charges.

Small business owners were the exception. As an amendment to consumer protection laws, the Credit Card Accountability, Responsibility, & Disclosure (CARD) Act did nothing to regulate the fast-growing market for small business credit cards. Unlike corporate charge cards that large companies use to manage expenses, business credit cards function much like consumer cards and are personally guaranteed by business owners, who often carry balances to finance their ventures. Small business cardholders now face a hodgepodge of policies and uncertain prospects for reform.

Business cards account for 15% of all volume charged on credit and debit cards, analysts estimate. The law did direct the Fed to recommend additional protections for these cardholders to Congress by May 22. A bill to cover business cards with CARD Act-style protections has stalled in the House. Small business advocates hope to attach the measure to a future Senate jobs bill—and to pass it before business owners take on credit card debt mistakenly thinking they're protected from retroactive rate hikes, says Molly Brogan, vice-president of public affairs at the National Small Business Assn., which has long pushed for credit card reform. "There's mass confusion," she says.

The banking lobby says giving small business cards the same protections as consumers will curtail credit. Because small businesses are risky and tend to charge more than consumers, issuers will have to cut credit and preemptively raise interest rates if they can't adjust rates later on, says Ken Clayton, senior vice-president of card policy for the American Bankers Assn. "You're merely going to exacerbate that pullback in credit that's already taking place in the marketplace," he says.

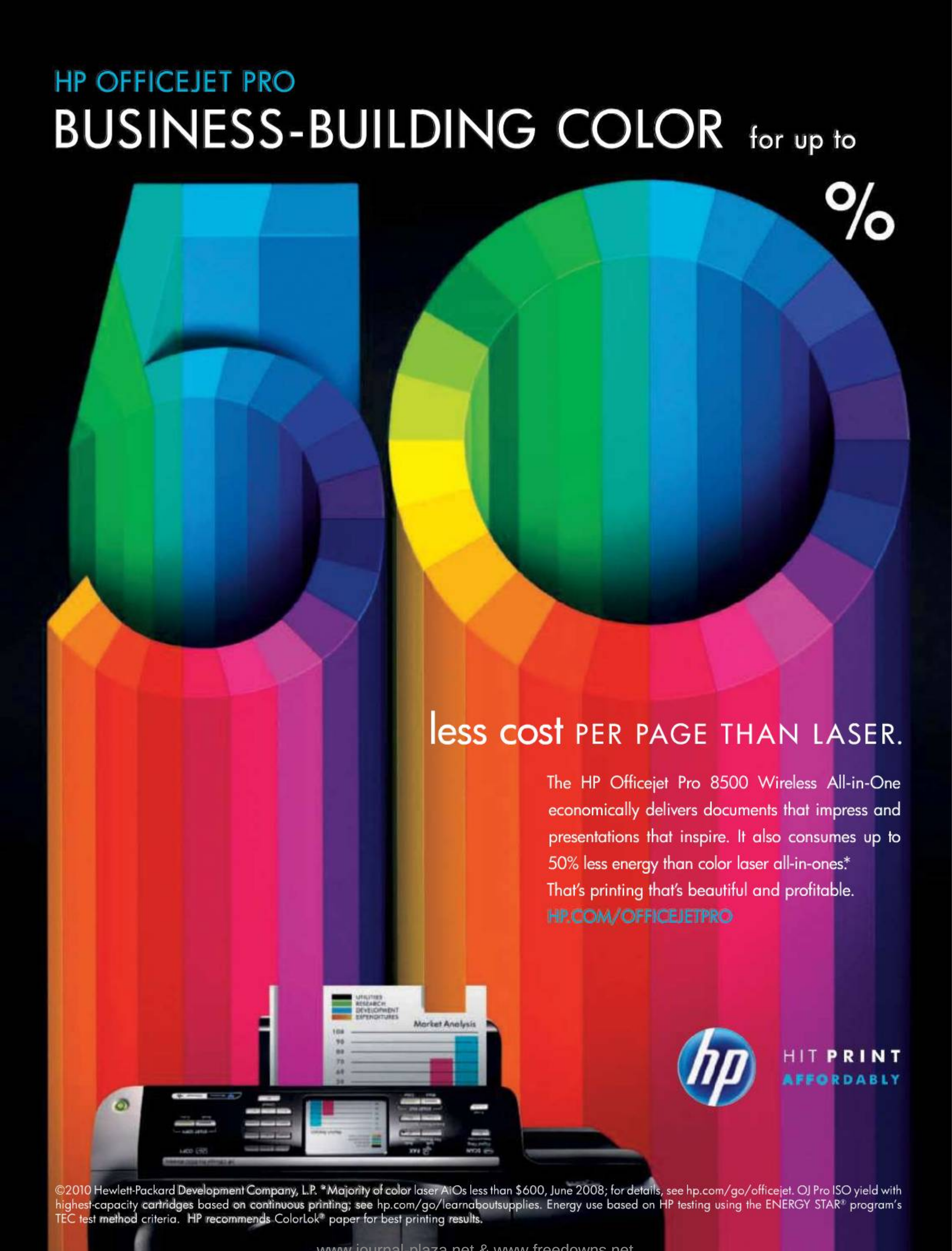
Some card issuers are voluntarily giving business customers bits of the same protections consumers now have. On Apr. 1, Bank of America announced that it would cease raising interest rates on existing balances in May for its 2 million small business cardholders and add other protections in July. Capital One included small business accounts in many CARD Act-related changes in February.

Without the force of law, these changes could be reversed by card issuers. And small business cardholders still face penalties such as fees for going over credit limits that issuers are now barred from charging consumers. Kevin Reeth, CEO and co-founder of online bookkeeping startup Outright, has been charged for exceeding the $3,000 credit limit on his American Express small business card twice since AmEx abolished such penalties for consumers on Oct. 1. On other occasions, his card was declined—making it difficult to tell when a charge will be approved if he's near the limit. AmEx spokeswoman Rosa Alfonso notes that business owners can avoid over-limit penalties by paying down their balance before their billing period ends.

While card issuers often argue that they need to be able to raise rates on existing balances to compensate for the risk of extending unsecured credit, BofA doesn't expect that abandoning its ability to adjust rates will limit the amount of credit it can extend, says spokeswoman Betty Riess. The bank aims to boost lending to small businesses in 2010, including credit card loans, by $5 billion. Say Riess: "We're trying to make every good loan we can." |BW|

JASON SCHNEIDER

www.journal-plaza.net & www.freedowns.net



www.journal-plaza.net & www.freedowns.net

Like what you see now?

IT'S ABOUT TO GET EVEN BETTER.

- Twice as many stories
- More local reporters in global markets
- Deeper analysis
- Enhanced navigation
- And so much more...

THE NEW
BLOOMBERG
BUSINESSWEEK
SEE FOR YOURSELF
APRIL 23

www.journal-plaza.net & www.freedowns.net

70 Making the most of the rebound in REITs

PERSONAL BUSINESS



MONEY REPORT

FRONTIER PLAYS

Stocks in the smallest developing markets are beating larger peers by the most in almost five years, and Templeton Asset Management's Mark Mobius says the rally will continue. The MSCI Frontier Markets Index rose 11% this year, outpacing the MSCI Emerging Markets Index by nine percentage points, the widest gap since 2005's second quarter. The gauge of shares from Ukraine to Vietnam trades for 1.5 times net assets, a 29% discount to the MSCI emerging index, which is dominated by Brazil, Russia, India, and China. Frontier markets are outperforming even as earnings estimates for those markets are forecast to trail those of so-called BRIC nations. The estimates ignore the boost from rising commodities and consumer demand, says Mobius. Nigeria, Africa's biggest oil producer, is one of the most attractive, he says. Nigerian Breweries was among the 10 largest holdings in Templeton's Frontier Markets Fund as of Dec. 31. *–Shiyin Chen and Michael Patterson*

Mobius says Nigeria, Africa's biggest oil producer, is a promising market

(L TO R) ED KASHI/AURORA; EMMANUEL DUNAND/AFP/GETTY IMAGES

STOCKS

RIDING THE WAVE

Japan's Nikkei 225 Stock Average, the world's most expensive developed-market benchmark, may be poised to rise almost 7%, to 12,000, according to MF Global Holdings. Chinese stocks traded in Hong Kong may go up as much as 26%, says CLSA Asia-Pacific Markets. At least they should, if a theory known as the Elliott Wave plays out. It postulates that market swings, or waves, follow a predictable, five-stage structure. The Nikkei 225's close at 11,244 on Apr. 1, the third consecutive close above 11,000, indicates "strong momentum" and should support the "final wave" of a rally that began in March 2009, says Anantha Rajan, a technical analyst at MF Global. The Hang Seng China Enterprises Index raised "some bull flags" after surging 2.4%, to 12,696, on Apr. 1, according to CLSA, and has "upside potential" to 16,258. *–Jonathan Burgos and Shiyin Chen*

OPTIONS

BULLISH CALL

On Apr. 5, JPMorgan Chase recommended buying Amazon.com options because they trade at two-year lows and the maker of the Kindle may rally on higher e-book sales. Options strategists Amyn Bharwani and Marko Kolanovic recommend purchasing July 135 calls (the stock trades around 132 now) while selling the same month's 155 calls. The strategy, known as a call spread, produces gains in the options with the lower strike



price if the stock rises, while selling the call with the higher strike price both caps the potential profit and lowers the cost of the trade. In this case, it means that the trade breaks even at 141. The maximum return to an investor would come if the stock tops 155 when the option expires on July 16. JPMorgan Chase analyst Imran Khan forecasts shares will reach 180 by the end of 2010. *–Jeff Kearns*

www.journal-plaza.net & www.freedowns.net

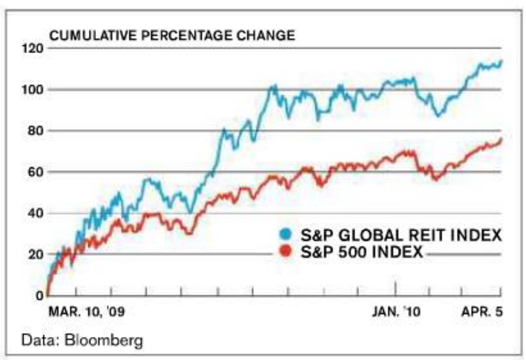
REAL ESTATE

RIDING THE REIT REBOUND

By Tara Kalwarski

It's hard to believe that any asset class could top the 76% runup in equities since the stock market bottomed last March, but real estate investment trusts have done just that. Since Mar. 9, 2009, the S&P Global REIT Index has climbed 114%. In the U.S., the 14 REITs in the S&P 500 are up 140%. "A year and a half ago, people were saying that the REIT industry is going to disappear," says Howard Roth, global leader of real estate at Ernst & Young. Now, even after posting such gains, the industry is in recovery mode, says Roth. He points out that most REIT markets around the world remain well below their peaks in 2007 or earlier. "With only a couple of exceptions and against all odds, REITs have survived and are on the way up," according to an E&Y report that Roth co-authored. Although there may be speed bumps ahead—real estate fundamentals vary widely depending on market and property types—many REITs have full coffers they can use "as a cushion and as a war chest," says Roth.

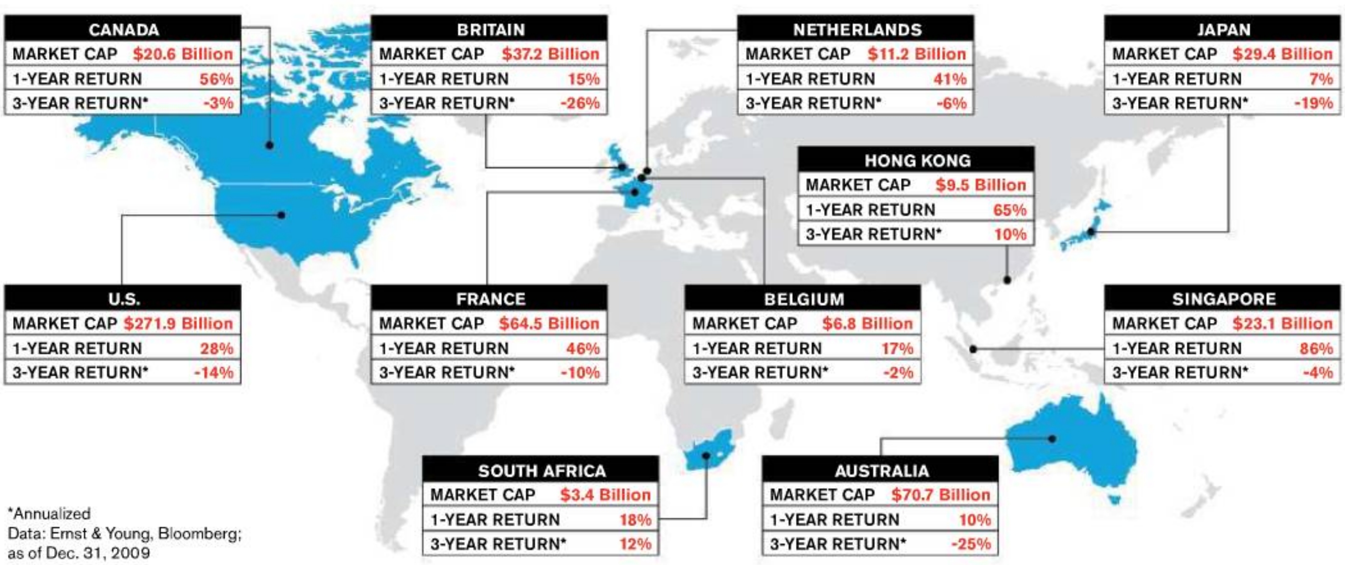
To get diversified REIT exposure, investors can choose from a number of exchange-traded funds. And real estate mutual funds, most of which have big REIT stakes, gained an average 87% in 2009's rally, the second-best showing among all fund categories, according to Morningstar analyst Andrew Gogerty. Much of that performance, as well as any continued rise, he says, can be attributed to a REIT's "ability to gain access to capital and repair [its] balance sheet." | BW |



Data: Bloomberg

REITs AROUND THE WORLD

The U.S. boasts the biggest REIT market by a long shot. The industry is still in its infancy in other countries.



Country	Market Cap	1-Year Return	3-Year Return*
CANADA	$20.6 Billion	56%	-3%
BRITAIN	$37.2 Billion	15%	-26%
NETHERLANDS	$11.2 Billion	41%	-6%
JAPAN	$29.4 Billion	7%	-19%
HONG KONG	$9.5 Billion	65%	10%
U.S.	$271.9 Billion	28%	-14%
FRANCE	$64.5 Billion	46%	-10%
BELGIUM	$6.8 Billion	17%	-2%
SINGAPORE	$23.1 Billion	86%	-4%
SOUTH AFRICA	$3.4 Billion	18%	12%
AUSTRALIA	$70.7 Billion	10%	-25%

*Annualized
Data: Ernst & Young, Bloomberg; as of Dec. 31, 2009

CHARTS BY STANFORD KAY

www.journal-plaza.net & www.freedowns.net

FINDING TERRA FIRMA IN ETFs

Real estate exchange-traded funds are a cheap way for retail investors to get exposure to real estate investment trusts.

PROPERTY TYPE

REAL ESTATE ETFS/TICKER	YEAR-TO-DATE RETURN*
iShares FTSE NAREIT Retail Capped/RTL	14.4%
iShares FTSE NAREIT Residential Plus Capped/REZ	8.5
iShares FTSE NAREIT Industrial/Office Capped/FIO	6.7
iShares FTSE NAREIT Mortgage Plus Capped/REM	4.8

GLOBAL/FOREIGN FOCUS

SPDR Dow Jones Global Real Estate/RWO	4.8%
Cohen & Steers Global Realty Majors/GRI	4
iShares S&P Developed Ex-U.S. Property/WPS	1.5
SPDR Dow Jones International Real Estate/RWX	1
iShares FTSE EPRA/NAREIT Developed Asia/IFAS	1
WisdomTree International Real Estate/DRW	0.7
Claymore/AlphaShares China Real Estate/TAO	-0.1
iShares FTSE EPRA/NAREIT Dev. Europe/IFEU	-0.7

U.S. FOCUS

iShares Cohen & Steers Realty Majors/ICF	10%
Vanguard REIT/VNQ	9.9
First Trust S&P REIT/FRI	9.9
SPDR Dow Jones REIT/RWR	9.9
iShares Dow Jones U.S. Real Estate/IYR	9.5
iShares FTSE EPRA/NAREIT North America/IFNA	9.2
Powershares Active U.S. Real Estate/PSR	8.6
iShares FTSE NAREIT Real Estate 50/FTY	8.1

Data: Bloomberg, Morningstar *As of Mar. 3

HOT PROPERTIES

These eight REITs are among the most widely traded in the industry. Five have beaten the S&P 500 REIT Index's 117% one-year gain.

MOST WIDELY TRADED U.S. REITs*

COMPANY/TICKER	PRICE	1-YEAR RETURN	3-YEAR RETURN
Annaly Capital Management/NLY	$17.34	48%	18%
Chimera Investment/CIM	3.91	33	N.A.
Host Hotels & Resorts/HST	14.81	288	-14
ProLogis/PLD	13.43	117	-37
General Growth Properties/GGP	15.95	2401	-35
Developers Diversified Realty/DDR	12.30	495	-37
Kimco Realty/KIM	15.74	138	-27
MFA Financial/MFA	7.41	46	11

*As of Apr. 1; based on average 30-day trading volume; 3-year return is annualized; N.A. = not available
Data: Bloomberg

FUNDS RICH IN REITs

The six real estate mutual funds below all boast top Morningstar ratings. The pie charts indicate the percentage of holdings currently invested in real estate investment trusts.



PRINCIPAL INVESTORS REAL ESTATE SECURITIES/PRRAX

1-YEAR RETURN: 101%
3-YEAR RETURN: -9%

Right now, REITs make up about 98%. Since its inception at the end of 1997, this fund has returned 8% a year, on average.



FIRST AMERICAN REAL ESTATE SECURITIES/FREAX

1-YEAR RETURN: 107%
3-YEAR RETURN: -8%

REITs account for more than 94% of the portfolio, including 10% in Simon Property Group and 4% in Vornado Realty Trust.



NEUBERGER BERMAN REAL ESTATE/NBRFX

1-YEAR RETURN: 115%
3-YEAR RETURN: -7%

Almost 89% of total assets are in REITs, and the 38 holdings in this fund have a median market cap of $5.1 billion.



AIM SELECT REAL ESTATE INCOME/ASRAX

1-YEAR RETURN: 72%
3-YEAR RETURN: -6%

REITs make up about 80% of holdings, but this fund can also buy debt issued by companies in the real estate industry.



CGM REALTY/CGMRX

1-YEAR RETURN: 113%
3-YEAR RETURN: 2%

Some 67% of this fund's portfolio is in REITs, and at 0.93%, its expense ratio is the cheapest among top-rated real estate funds.



FIDELITY REAL ESTATE INCOME/FRIFX

1-YEAR RETURN: 57%
3-YEAR RETURN: 0%

In addition to its 61% stake in REITs, this fund also owns commercial mortgage-backed securities and homebuilder stocks.

As of Apr. 1; 3-yr. return is annualized Data: Bloomberg, Morningstar

www.journal-plaza.net & www.freedowns.net

74 Books: The long knives at Lehman
76 Outside Shot: Richard Tedlow on Toyota in denial



Glare can make the iPad's glossy screen hard to read

TECH & YOU By RICH JAROSLOVSKY

Diary of an iPad Man

He read, he worked, he played games, he made a lady gasp. His weekend with the Super Tablet

DAY ONE

I get my review loaner ahead of the general release. It's the 64-gigabyte, Wi-Fi-only version that retails for $699. I spend much of the day demonstrating its capabilities to the little knots of newsroom humanity that keep forming around me.

On the train home that evening, I briefly debate whether to take the device out of my bag and make a ruckus. What the hell. I put the iPad on my lap.

The reaction is immediate.

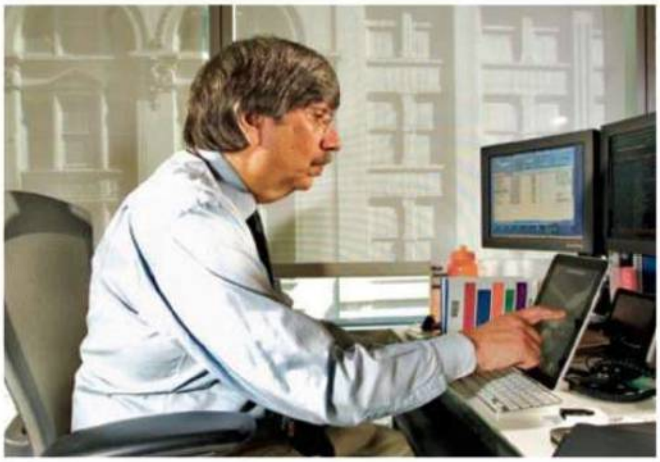
A well-dressed woman sitting next to me gasps and for the rest of the journey shows me iPad-related articles in the newspapers she's reading. Across the aisle, a large young man in baggy jeans and a leather Yankees cap peppers me with well-informed questions. How fast is the custom Apple-designed A4 chip? (Very.) Is it a lot like using an iPhone or iPod Touch? (Not really. The bigger screen makes it a fundamentally different experience.)

I get home, talked out and feeling like Steve Jobs' unpaid, not to mention unwilling, salesman. My wife, who in our 25 years of marriage has seldom shown an interest in any of my tech toys, declares the iPad "sexy."

DAY TWO

I've found the iPad's kryptonite: sunlight. Indoors, the backlit screen works beautifully. As soon as I take the iPad to a park near my home, that strength becomes, ahem, a glaring weakness. It's easier to see my reflection on the glossy screen than catch a glimpse of the Real Racing HD course I was hoping to conquer in my virtual sports car. Just as bad, my fingerprints on the touchscreen, which barely registered indoors, are thrown into cruel relief by the sun. Note to self: If I take the iPad to the beach, bring a big umbrella. Maybe a tent.

www.journal-plaza.net & www.freedowns.net



The iPad's word processing app is maddening, even with the $69 keyboard

DAY THREE

Gym day. I like to read while I cycle; it takes my mind off the fact I'd much rather be doing something else. Until now, Amazon's Kindle has been my workout companion, and I have a backlog of books on it. Rather than pay for them again in Apple's iBookstore, I download Amazon's free Kindle iPad app and gain immediate access to all my previously purchased books, automatically returning to the point in *Rob Neyer's Big Book of Baseball Blunders* where I had stopped reading on my Kindle.

Kindle books aren't as nice on the iPad as books purchased from Apple's iBookstore. They display as a single page whether the iPad is held horizontally or vertically, and the pages slide rather than turn. Still, they are much nicer on the iPad than on the monochrome Kindle. And you can buy Kindle titles directly from the iPad, giving you a second source of books that is, at least for now, considerably more extensive than Apple's.



DAY FOUR

I'm writing this passage on the iPad. At one point, I thought about writing the whole column on it. Bad idea.

The iPad-app version of Pages, the word processor in Apple's iWork suite, is maddening. The onscreen keyboard is fine for tapping out short notes with the iPad balanced on your lap. On a smooth surface, though, the machined-aluminum, slightly convex back slips around annoyingly. Apple's $69 keyboard, which includes a dock that holds the iPad at a good angle for typing, helps. But Mr. Jobs—who brought pointing devices such as the mouse into mainstream use—has trained me too well. I hate having to move my fingers from the keyboard to the screen for formatting, highlighting, and the like. While the iPad also works with Bluetooth wireless keyboards, it won't pair with a Bluetooth mouse, not even Apple's.

Entering data into the Numbers spreadsheet is just as cumbersome. Then again, once I'm done typing, the touch interface makes it easy to grab, drag, and resize graphics and format documents. The Keynote presentation app is a genuine pleasure.

But I still miss my mouse. If I'm going to use this thing to replace a netbook—which it's eminently capable of doing—for God's sake, let me use a pointing device other than my finger.

DAY FIVE

Cross-country flight. Today the iPad is incognito in its $39 Apple case. Nary a peep from fellow passengers or cabin crew. I settle in to watch Robert Downey Jr.'s hi-def performance in *Sherlock Holmes*, rented from the iTunes Store, along with a couple episodes of my favorite Britcom, *Yes Minister*. With a little reading and what it took to write these words, plus some iPad time I allotted to the teenage daughter traveling with me, the device has been in use for almost four hours. Still has 72% of its battery charge to go.

Apple's $39 case protects against dings—and pesky onlookers



Kindle books work fine and look better on the iPad than on Amazon hardware

Regardless of how many iPads Apple ends up selling, it's something genuinely new. Is it a life changer? I ask the teenager. She shrugs. "It's O.K.," she says. Kids. Tough crowd. | BW |

www.journal-plaza.net & www.freedowns.net

BOOKS

By JAMES PRESSLEY

The Long Knives At Lehman

Was the root cause of the biggest bankruptcy in U.S. history a betrayal that took place a dozen years prior?

Othello had Iago. King Lear had Goneril and Regan. The Lehman Brothers tragedy also had a villain, to hear Vicky Ward tell it in her gossipy book, *The Devil's Casino*: Joseph M. Gregory betrayed a friend and revered Lehman leader, T. Christopher Pettit.

In 1996, writes Ward, a *Vanity Fair* contributing editor, Gregory persuaded Lehman CEO Richard Fuld to demote Pettit, his top deputy. "In less than a year, Gregory had changed from Pettit's acolyte to his Brutus," she writes, adding that the episode "is still called the Ides of March by senior Lehman executives because it occurred on March 15, the day Julius Caesar was killed by his former friends in 44 B.C."

In case a mid-'90s office coup seems irrelevant to Lehman's 2008 meltdown, read on. Ward succeeds in showing how the avarice and egotism that precipitated the biggest bankruptcy in U.S. history were rooted in a rivalry among five men who rose to power at Lehman after it was acquired by American Express in 1984. Along the way she presents a now familiar take on Fuld, who oversaw Lehman for almost 15 years: "He was not the great general that Gregory wanted him to be, but a man who either was invisible or needed to be told what to do by a stronger subordinate."

Ward is more interested in personal foibles than in profits and losses. Drawing on accounts written by Lehman executives and extensive interviews, she presents a history spiced with shouting bankers, desperate wives, and one hurled adding machine.

Of her five main characters, Fuld is the best known. The other four—named the "Ponderosa Boys" after the ranchers in the TV show *Bonanza*—were Pettit, Gregory, Thomas Tucker, and Stephen Lessing. Together they carpooled, went to the gym, and climbed the ranks. The lead Ponderosa Boy, Pettit, was a West Point grad who earned two bronze stars in Vietnam. He rose the fastest, becoming a partner in 1982 and, essentially, Fuld's co-leader. Like a tough father, he inspired workers even as he ripped into them, writes Ward, who makes no attempt to hide her admiration.

These five men transformed Lehman's culture, taking their cue from Lewis Glucksman, the bond trader whose feud with Peter G. Peterson led to the Amex takeover. One by one, bankers such as Steve Schwarzman fled, leaving Fuld as the most senior member of the merged firm, Shearson Lehman Brothers.

With Pettit on hand to keep the troops in line, Fuld had the lonely role of battling Shearson boss Peter Cohen over leverage and bonuses, Ward shows. That was Lehman at its finest, she argues. "The duo was unstoppable," she says. But Fuld's increasing isolation and aloofness, teamed with his later loss of Pettit's support, mark the beginning of Lehman's end.

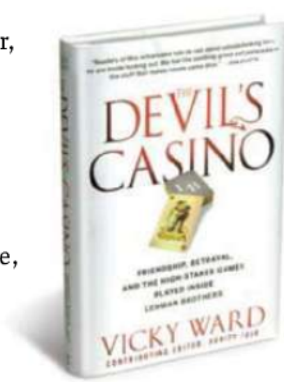
When the spinoff from Amex came in 1994, Pettit was the last threat to Fuld's leadership of the new investment bank. Though the troops were loyal, a stew of personal and professional distractions made him vulnerable; his brother was dying of brain cancer, and his marriage was crumbling. Meanwhile, Gregory was fuming because Pettit was protecting the heads of two underperforming divisions, Ward writes. He was also livid after Pettit scolded him over his handling of the Mexican peso crisis. So Gregory got Fuld to demote Pettit.

"It took a remarkable amount of push from me and Steve Lessing to get Dick emboldened enough," Gregory wrote in an unpublished "Modern History" of Lehman that Ward cites.

"How am I going to do this ... ?" Fuld asked Gregory and Lessing before the showdown, according to Gregory.

Within a year, Pettit had resigned, and died in a snowmobile accident. His departure left no one to hold Fuld in check, least of all Gregory, who would become president and chief operating officer. Fuld's isolation and Gregory's elevation set the stage for Lehman's demise. As the credit bubble swelled, Fuld was shut in his 31st-floor office, spending billions on commercial real estate and bullying those who urged him to pull back.

Unfortunately, Ward allows unnamed sources to lob insults. She also casts in the best light those who gave her the most access. Gregory, who was ousted himself in Lehman's final days, spoke to her in one fleeting phone call. He didn't respond to a request for comment from Bloomberg News. |BW|



The Devil's Casino*: *Friendship, Betrayal and the High Stakes Games Played Inside Lehman Brothers **by Vicky Ward; Wiley; $27.95; 270 pp**

www.journal-plaza.net & www.freedowns.net

INDEX OF COMPANIES AND PEOPLE

The index lists significant references to companies, top executives, public officials, and well-known figures around the globe. The folio denotes the first page of the story containing the reference.

A
Abaxia 58
Ahmad Hamad Algosaibi & Brothers 26
AIM Select Real Estate Income 70
al-Jasser, Muhammad 26
AllianceBernstein 32
Al Sanea, Maan 26
Altria (MO) 50
Al-Tuwairqi Group 26
Amazon.com (AMZN) 6, 46, 69, 72
American Express (AXP) 66, 74
AIG (AIG) 38
Amway 64
Apple (AAPL) 6, 46, 72
Areva 56
AT&T (T) 6
Autodata 24
Avon (AVP) 64

B
Baily, Martin 28
Bank of America (BAC) 38, 66
Bank of England 6
Baosteel 56
Barnes & Noble (BKS) 6
Bayer 62
BBC 46
Behar, Joy 22
Belvnesheconombank 58
Bernanke, Ben 14, 38
BMW 24
BNP Paribas 14
Boeing (BA) 28
Bush, George H.W. 28
Bush, George W. 28, 32
BYD 56

C
Capital Economics 32
Capital One (COF) 66
CGM Realty 70
Chanos, Jim 11
Cisco Systems (CSCO) 58
Citigroup (C) 38
Clinton, Bill 28
CLSA Asia-Pacific Markets 69
Comcast (CMCSA) 6, 46

D
Daimler (DAI) 6
Darling, Alistair 6
DeVos, Doug 64
Dimon, Jamie 18
Dodd, Chris 18
Dow Chemical (DOW) 14

E
Economy.com (MCO) 28
Eden Ventures 46
Edmunds.com 24
EPAM Systems 58
Ernst & Young 62, 70
Experian 60

F
Fannie Mae (FNM) 28, 38
Ferrell, Will 22
Fidelity Real Estate Income 70
Finmeccanica 58
First American Real Estate Securities 70
First Pacific Advisors 38
Ford Motor (F) 24
Frank, Barney 38
Freddie Mac (FRE) 28, 38
Frontier Markets Fund (TFMAX) 69
Fuld, Richard 74

G
Gabriel, Peter 46
Geithner, Timothy 6, 28, 38
General Electric (GE) 56
General Motors 24
Glucksman, Lewis 74
Gluskin Sheff + Associates 32
Goldman Sachs (GS) 14, 28, 38
Google (GOOG) 6, 46
Greenspan, Alan 18, 28, 38
Gregory, Joseph M. 74

H
Hitachi 56
HMV 46
Holtz-Eakin, Douglas 32
Honda Motor (HMC) 24
Honeywell (HON) 58
Hopkins, Martin 46
HSBC Holdings (HBC) 26
Huawei 56
Hyundai Motor 24, 56

I
IHS Global Insight 32
IMS Health (RX) 62
Inada, Yoshimi 76
ING Group (ING) 56
Inventive Machine 58

J
Jadwa Investment 26
Jarding, Steven 28
Javelin Strategy & Research 60
Jobs, Steve 72
Johnson & Johnson (JNJ) 62
JPMorgan Chase (JPM) 6, 14, 18, 38, 69

K
Kirchner, Cristina 6
Konami (KNM) 62

L
Lee, Myung Bak 56
Leno, Jay 22
Lessing, Stephen 74
Letterman, David 22
Lewis, Kenneth D. 38
Loudeye 46
Lukashenko, Alexander 58

M
Macroeconomic Advisers 32
Maher, Bill 22
Mary Kay 64
Massey Energy (MEE) 6
MAZ 58
McCain, John 32
McNerney, Jim 28
Mercator Advisory Group 66
Merrill Lynch (BAC) 38
MF Global Holdings (MF) 69
Microsoft (MSFT) 58
Miller Tabak + Co. 28
Mizuho Securities USA 32
Mobilkom Austria Group 58
Moody's Economy.com (MCO) 32
Morningstar (MORN) 70
MSN 46
MTV 46
Murdoch, Rupert 22

N
Navistar (NAV) 58
NBC (GE) 46
Netflix (NFLX) 46
Neuberger Berman Real Estate 70
Nigerian Breweries 69
Nike (NKE) 6
Nintendo (NTDOY) 62
Nissan 24
Nokia (NOK) 46
Nomura Research Institute 32

O
Obama, Barack 28, 32, 38
O'Brien, Conan 22
On Demand Distribution 46
Oracle (ORCL) 58
Orszag, Peter 28
Osborne, George 6
Outright 66

P
Pacific Investment Management 14
Panasonic (PC) 56
Pandit, Vikram 38
Paulson, Henry M. 38
Peterson, Peter G. 74
Pettit, T. Christopher 74
Phelps, Edmund 32
Principal Investors Real Estate Securities 70
ProtectMyId.com 60

Q
Quraish Trading 26

R
Reilly, Kevin 22
Renaissance Capital 58
Renault-Nissan 6
Roberts, David Maher 46
Roche 62
Rodriguez, Robert L. 38
Romer, Christina 28, 32
Roubini, Nouriel 14
Rubin, Robert E. 28

S
Saad Group 26
SABB 26
Samsung 56
Sanofi-Aventis (SNY) 62
SAP (SAP) 58
Schwarzman, Steve 74
Sharp 56
Skype Technologies 6
Sony (SNE) 56
Sony Music (SNE) 46
Standard Chartered 26
Summers, Larry 32
Syco Systems 46

T
Tarullo, Daniel K. 38
Tedlow, Richard 76
Templeton Asset Management 69
Thain, John A. 38
The Filter 46
thePlatform 46
Toyoda, Akio 76
Toyota Motor (TM) 6, 24, 76
Trichet, Jean-Claude 14
Tucker, Thomas 74
Turkcell (TKC) 58
2953 Analytics 24

V
Verizon Communications 6
Virgin 46
Vision Horizons 26
Volkswagen 6

W
Ward, Vicky 74
Woods, Tiger 6
World Privacy Forum 60

Z
Zandi, Mark 28

BusinessWeek (USPS 080 900)
APRIL 19, 2010 (ISSN 0007-7135) S T Q ISSUE NO. 4174
Published weekly, except for one issue in January, February, March, July and August by Bloomberg, L.P.
Periodicals postage paid at New York, N.Y., and at additional mailing offices
Executive, Editorial, Circulation, and Advertising Offices: BusinessWeek, 1221 Avenue of the Americas, New York, N.Y. 10020.
Postmaster: Send address changes to BusinessWeek, P.O. Box 8418, Red Oak, IA 51591-1418. Canada Post Publication Mail Agreement Number 41989020. Return undeliverable Canadian addresses to DHL Global Mail, 355 Admiral Blvd-Unit4, Mississauga, ON L5T 2N1. Email: bwkcustserv@cdsfulfillment.com QST#1008327064
Registered for GST as Bloomberg L.P. GST #12829 9898 RT0001

Copyright 2010 Bloomberg L.P. All rights reserved.
Title registered in the U.S. Patent Office.

Single Copy Sales: Call 800-298-9867 or email: busweek@nrmsinc.com
Subscriber Services: Call 800-635-1200 or log onto our website: http://www.businessweek.com/custserv/manage.htm
Photocopy Permission: Where necessary, permission is granted by copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923 or email the CCC at info@copyright.com
Custom Reprints: For customized bulk reprints of BusinessWeek articles, contact The YGS Group at 800-360-5549 or email: businessweekreprints@theYGSgroup.com
PRINTED IN THE U.S.A.





Donate blood today and change a life, starting with your own.
Call 1-800-GIVE LIFE or visit givelife.org.
American Red Cross
H20396

www.journal-plaza.net & www.freedowns.net

OUTSIDE SHOT

By RICHARD TEDLOW

Toyota Was in Denial. How About You?

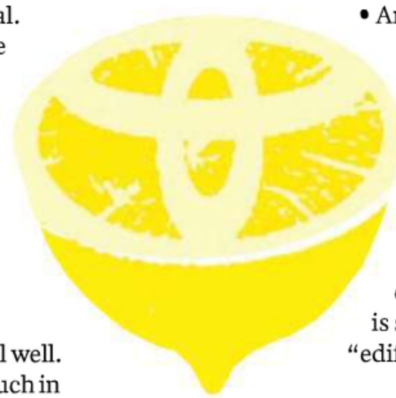
A failure to deal with obvious problems was its biggest problem. But instead of just shaking your head, take a look at your own company

In the past weeks we have learned two things about Toyota. First, when it comes to crisis management, the company stinks. Second, when it comes to manufacturing automobiles, Toyota isn't what it was cracked up to be.

It is that second item that came as the real shocker. Anyone questioning this company's level of quality a year ago would have had difficulty finding an audience. But today, Toyota finds itself having to recall more than 8 million vehicles, and it may soon have to pay the maximum fine the U.S. Transportation Dept. can levy for concealing safety information. As you surely know, a wide array of Toyota's vehicles must undergo repairs for a potentially deadly accelerator problem. Indeed, it has already cost lives.

Manufacturing defects can crop up at the best of companies. And Toyota was certainly counted among the best of the best. Anyone still interested in reading about the company's vaunted production system can go buy a book like *The Toyota Way* or *The Machine that Changed the World*. But evidence is starting to indicate that we were living in a "Toyota reputation bubble," comparable in its own way to the dot-com and housing bubbles.

In 2005, Toyota recalled more vehicles in the U.S. than it sold. Worldwide, nearly 1.5 million Toyota vehicles were recalled the following year. Why was there not a spate of articles about Toyota no longer being the company people thought it was? Outsiders writing about Toyota fell victim to what John Kenneth Galbraith many years ago called the conventional wisdom. We all saw Toyota through the prism of its supposed manufacturing superiority, a prism that distorted reality. When the accelerator recalls were followed by Prius recalls over faulty brakes, the jig should have been up. But to this day I know people who do not plan to take recalled Toyotas back to the dealer. They are still in denial.



Evidence of trouble was available to Toyota long before American consumers were told. The gas-pedal problem appeared in Europe a year before it started causing accidents in the U.S., as the company's brass knew full well. Acknowledging as much in congressional testimony, Toyota's top U.S. executive, Yoshimi Inaba, characterized the company's response this way: "We did not hide it. But it was not properly shared." What on earth were they thinking? Did they believe that the failure of this most public of products would pass by unnoticed?

I believe I know the answers to these questions. Toyota's top people were in denial, just as the public was. By denial, I mean that they stopped being honest with one another. And they stopped being honest with themselves. If Toyota's products were as fatally flawed as they were, that would be too awful to be true. Therefore, the awful truth was brushed away. I've seen this happen in so many companies that I was compelled to write a book about it.

There's a highly valuable lesson for all businesspeople in the tragedy at Toyota: If denial can destroy the reputation of a company that was once so admired, it can destroy the reputation of your company, too. Unfortunately, organizations (and people) that are in denial have a hard time seeing through their own smokescreens. Here are some questions you should ask yourself to help you avoid Toyota's fate:

- What happens to the bearer of bad news? Does your company shoot the messenger rather than heed the message? There are indications that this may have been the case at Toyota.

- Do the real issues of the day only come up in the hallways after meetings are finished?

- Are you trash-talking your competitors' products? If so, how sure are you that yours are superior?

- Is your company building a new large headquarters to celebrate itself? There is some evidence of the "edifice complex" at Toyota.

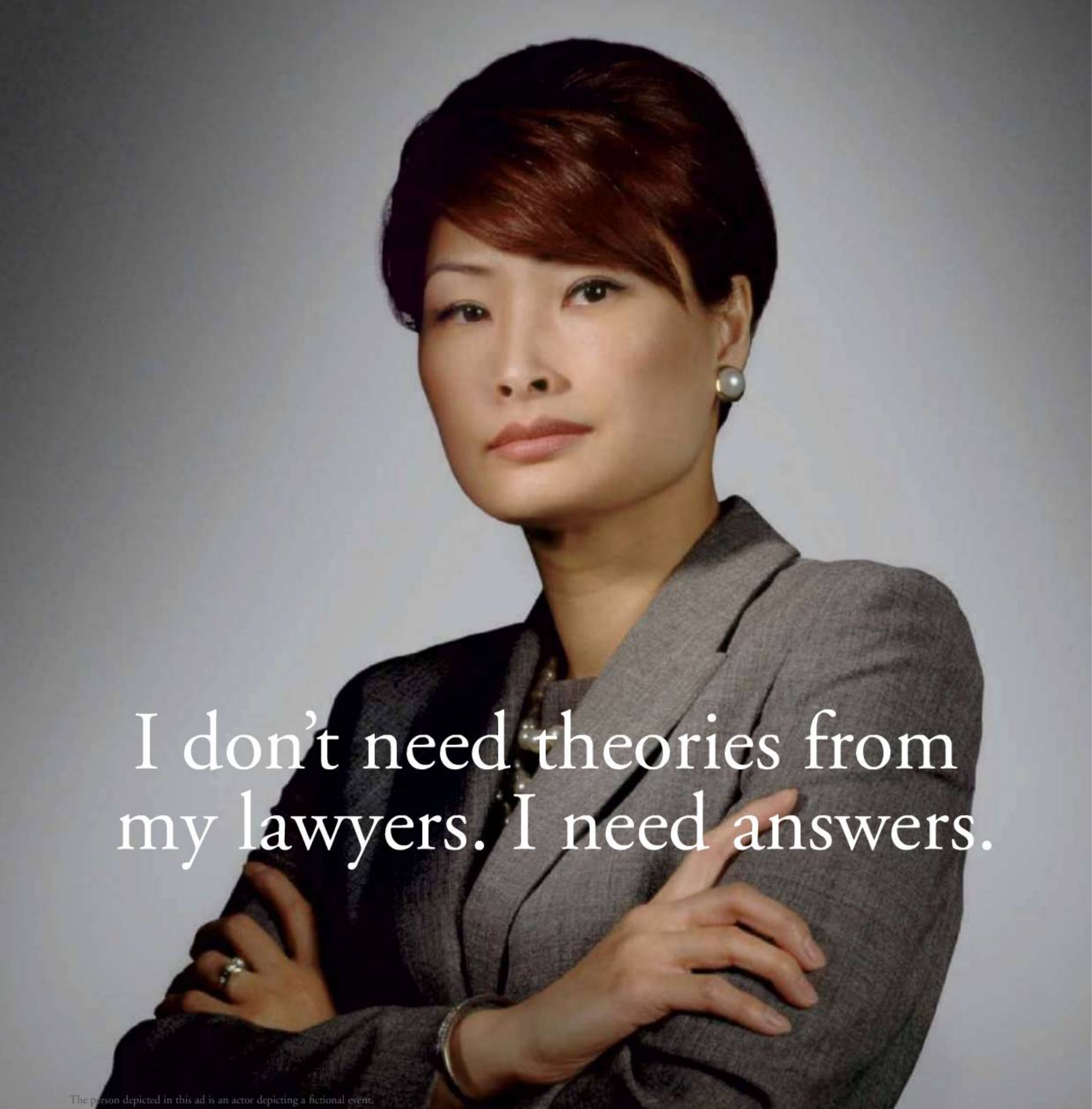
- Would you rather be conventionally wrong or unconventionally right? Toyota's top people chose the former.

If your answers to these questions make you a bit uneasy, think about how Toyota President Akio Toyoda must be feeling right about now. | BW |

Richard Tedlow is a professor at Harvard Business School and the author of Denial: Why Business Leaders Fail to Look Facts in the Face.

OLIVER MUNDAY

www.journal-plaza.net & www.freedowns.net



Ever get a three-page memo from your lawyer when you're looking for quick, to-the-point advice? At Nixon Peabody, we know that you prefer simple, clear and practical to rambling and theoretical. Your world is complicated enough.

NIXON PEABODY LLP
ATTORNEYS AT LAW

www.nixonpeabody.com | Albany · Boston · Buffalo · Chicago · London · Long Island · Los Angeles · Manchester · New York
Palm Beach Gardens · Paris · Providence · Rochester · San Francisco · Shanghai · Silicon Valley · Washington, DC

www.journal-plaza.net & www.freedowns.net



www.journal-plaza.net & www.freedowns.net